

# FINANCIAL TIMES

Madrid swims against the mainstream, Page 17

EUROPE'S BUSINESS NEWSPAPER

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Copenhagen	100.00	100.00	100.00	100.00	100.00
Helsinki	100.00	100.00	100.00	100.00	100.00
Oslo	100.00	100.00	100.00	100.00	100.00
London	100.00	100.00	100.00	100.00	100.00
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Oslo	100.00	100.00	100.00	100.00	100.00

## Fabius takes hard line on kidnaps

French Prime Minister Laurent Fabius pledged that his government would stand firm in response to "blackmail" by Islamic fundamentalists who kidnapped four French TV journalists at the weekend in Beirut.

## Israeli convention

Israel's divided right-wing Herut party, the largest party in the Likud bloc, which is in coalition with the Labour Party, opened its first convention for seven years deeply divided by a bitter leadership quarrel.

## Ugandan town held

The National Resistance Army, which seized power in Kampala in January, said it had captured the northern Ugandan town of Gulu, the main remaining outpost of former government troops.

## Contra deal sought

The US Administration and Democrats in Congress are exploring a compromise over President Ronald Reagan's request for \$100m to help Contra rebels fighting to overthrow the left-wing government in Nicaragua.

## Four killed in SA

Two men and two women, all black, were killed in the worst violence reported since South Africa lifted its state of emergency on Friday. The disturbances affected townships in three of the country's four provinces.

## Colombian poll

Colombians voted to elect a new congress under a tight security blanket set up to counter possible guerrilla attacks.

## Palme hunt denied

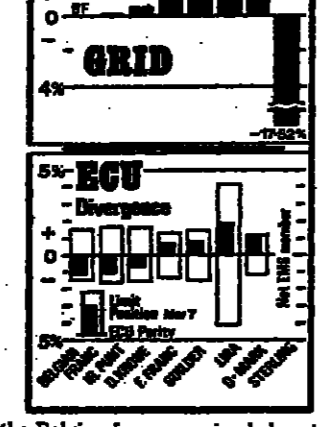
Swedish police denied Turkish newspaper reports that Kurdish guerrillas were prime suspects in the search for Prime Minister Olof Palme's killer.

## UK poverty trap

The number of people in the UK poverty trap - where income increases are largely negated by benefit cuts and tax - has grown five-fold since 1979, the Low Pay Unit says.

## Manila may not repay \$2bn loan

THE PHILIPPINES may suspend repayments on foreign loans used to finance a \$2.1bn nuclear power plant after allegations that an \$80m payment to ousted President Ferdinand Marcos was involved.



the Belgian franc remained close to their cross-rate intervention limits against the D-Mark but were still within their respective allowable movements from Ecu central rates.

MULTI-FIBRE ARRANGEMENTS: Representatives of developing textile-exporting countries released a communique in Peking that appeared to satisfy their diverse interests.

ERICSSON, the Swedish telecommunications and electronics group, has signed a letter of intent with Digital Equipment of the US, the world's second largest computer manufacturer.

VICKERS: Management of the UK workshop wants to go ahead with its share offer even though Trafalgar House, which failed in its bid to buy Vickers, may challenge the decision in the courts.

A CENTURY and a half ago, William Cobbett's Rural Rides caught the spirit of the fast-changing economy of southern England.

Hamburger city: A CENTURY and a half ago, William Cobbett's Rural Rides caught the spirit of the fast-changing economy of southern England.

## LME faces lawsuits over decision to close tin market

THE LONDON Metal Exchange, the world's leading metals market, is braced for a spate of lawsuits from aggrieved brokers and others in the tin trade after its decision on Friday to close all tin contracts at a fixed price and shut the tin market permanently.

On the advice they have received from their solicitors, Linklaters and Paines. There has already been a hint of what might happen. In January, Shearson Lehman Brothers, part of the American Express financial group and associate of LME member Shearson Lehman Metals, sent a solicitor's letter to the LME board asking it to declare that, while the suspension of tin trading applied to business between brokers, it should not apply to trades between brokers and clients.

EUROPEAN Community finance ministers will be urged today to set strict new limits on farm spending or face a budget crisis that threatens to exhaust Community income before the end of next year.

Official figures submitted by the European Commission suggest that the Community will just be able to live within its means this year and next thanks to the increase in member states' contributions from last January 1.

THE US Administration yesterday defended its decision to order a large cut in staff at the Soviet mission to the United Nations in New York and expressed the hope that it would not sabotage a Reagan-Gorbachev summit later this year.

Mr Caspar Weinberger, the US Secretary of Defence, said that many of the 275 people in the Soviet mission were spies. "It is not an unfriendly act to get rid of some spies, I think it is a perfectly reasonable act," he said.

The State Department insisted that the size of the Soviet mission was not connected with bilateral relations. "There is no reason why this action should affect the prospects for the next summit," Mr Charles Redman, a spokesman, said.

## Court tells Lac to give up Hemlo gold mine

THE ONTARIO Supreme Court has ordered a Canadian mining company to hand over one of the country's newest and richest gold mines to a competitor.

After a five-month trial in Toronto, the court upheld a claim by International Corona that Lac Minerals of Toronto improperly acquired mining rights to a 400-acre property in the Hemlo area of western Ontario five years ago from the elderly widow of an American prospector with whom Corona was also negotiating for the purchase of the property.

Mr Justice Holland ordered Lac to surrender the Hemlo mine and all to Corona as well as all profits earned from the operation plus interest. He said the damages award was worth C\$700m (US\$495m) compared with Corona's original claim of C\$30m. Corona will have to reimburse Lac for C\$154m in development costs.

IMPERIAL GROUP, the British tobacco, brewing and food concern, is negotiating the sale of its Golden Wonder crisps business with a shortlist of three companies, the rival British food and drinks group, Allied-Lyons, and two unnamed US companies.

Three groups in bid for UK snack company: IMPERIAL GROUP, the British tobacco, brewing and food concern, is negotiating the sale of its Golden Wonder crisps business with a shortlist of three companies, the rival British food and drinks group, Allied-Lyons, and two unnamed US companies.

US defends decision to oust Soviet 'spies': THE US Administration yesterday defended its decision to order a large cut in staff at the Soviet mission to the United Nations in New York and expressed the hope that it would not sabotage a Reagan-Gorbachev summit later this year.

US defends decision to oust Soviet 'spies': THE US Administration yesterday defended its decision to order a large cut in staff at the Soviet mission to the United Nations in New York and expressed the hope that it would not sabotage a Reagan-Gorbachev summit later this year.

## Pressure mounts for Land Rover buy-out scheme

THERE ARE signs of mounting pressure within the UK Cabinet for Land Rover, the subsidiary of state-owned BIL, to be sold to its present management rather than disposed of, together with Leyland Trucks, to General Motors of the US.

Reports of a Cabinet "revolt" with Mr Nigel Lawson, Chancellor of the Exchequer, opposing the GM solution and pressing for a management buy-out, were denied last night.

However, there was no denial of a suggestion that Mr Lawson told a special seven-man Cabinet meeting that he would be prepared to see Land Rover sold to its management even if the price was much lower than GM offered.

Mr Norman Tebbit, Conservative Party chairman, who has backed the GM bid, was softening his attitude. "My ideal would be that a British option would arise that was the best option for the company," Mr Tebbit, a former Trade and Industry Secretary, said on television.

Mr Richard Niehoff, president of the Cincinnati exchange, said he was unwilling to market the system in the US because it would take away his competitive advantage. He thought that European exchanges using NSTS would prove complementary to Cincinnati.

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OVERSEAS NEWS

Manila may halt N-plant payments

BY ALAIN CASS AND SAMUEL SENOREN IN MANILA

THE PHILIPPINES may suspend repayments on foreign loans used to finance the most expensive project built under former president Ferdinand Marcos—the country's only nuclear power plant—while the Government takes legal action to nullify the contract.

Mr Teodoro Guingona, newly-appointed chairman of the Commission on Audit, said yesterday that the \$2.1bn (£1.5bn) contract between Westinghouse of the US and the National Power Corporation (NPC) to build the Bataan plant was grossly defective. It has also been alleged in the US that a payment of \$80m was made to Mr Marcos in connection with the contract.

The plant has a long and controversial history. Built in the late 1970s, it has never operated and President Corazon Aquino said during her election cam-

aign that it never would, on safety and environmental grounds.

Foreign loans acquired to finance the plant amounted to \$1.5bn. Major lenders included the US Export Import Bank and a syndicate of banks led by Citicorp of the US which is also one of the biggest private lenders to the Philippines.

The Manila government has said it wants to re-negotiate its \$260m foreign debt and the way in which it handles its anti-corruption drive will be closely watched by foreign companies.

A senior government official confirmed yesterday that any contracts where illicit payments were suspected to have been made by foreign companies would be reviewed and "everything possible will be done under the law to recover the money."

The Westinghouse case could prove difficult to document because the plant has already been completed, the official said. "But there are other more recent contracts we can look into." It is not clear whether pending contracts will be affected by the investigation.

Mr Guingona said: "While there is a dispute between the NPC and Westinghouse, which is being reviewed in court it would be natural for payments to be suspended." However, a final decision on suspension will be taken by President Aquino.

Apart from worrying international bankers, such a suspension is likely to be opposed by more experienced members of Mrs Aquino's administration, who will argue that it could seriously affect international confidence in the Philippines at a time when it needs it most.

The debate between the ideolo-

gists and the pragmatists in the new government is intensifying and Mrs Aquino is under growing pressure to label her administration a "revolutionary government." The Government has no legal basis and it needs a framework within which to carry out controversial reforms and consolidate its power by replacing officials loyal to Mr Marcos.

Mrs Aquino has been reluctant to use the "revolutionary" label because it might damage confidence abroad. She has been advised against it by diplomats from Europe and the US.

Mr Salvador Laurel, the vice president, has suggested that parliament should be suspended and a new constitution drawn up within a 100 days. This would be put to a referendum and followed by local and general elections.

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Contra aid compromise sought

BY NANCY DUNNE IN WASHINGTON

THE REAGAN Administration and Congressional Democrats are exploring a compromise over President Reagan's request for \$100m (£68m) to help US-backed Contra rebels in Nicaragua.

Sen Christopher Dodd, a Connecticut Democrat and a key member of the Senate Foreign Relations committee said yesterday the Administration had come to realise that "Republicans as well as Democrats won't buy this programme... it is too much money and it won't buy us what we want."

Under negotiation is an agreement to put military aid for the rebels in escrow for six months: while the Adminis-

tration pursues peace talks with the Nicaraguan regime through Mr Philip Habib, the President's new special envoy to Central America.

Still at issue is whether a second Congressional vote would be needed to release the aid if peace talks fail.

Mr Elliott Abrams, Assistant Secretary of State for Inter-American Affairs said yesterday a second congressional loan would confirm "our hesitancy" to Nicaraguan neighbours.

"Every month's delay in getting the military assistance they need to the resistance forces is another month for the Soviet and Cuban-backed forces to kill

TWA steps up hostess battle

TWA, THE transatlantic airline, hit by a strike of 6,000 air hostesses, stepped up the propaganda war against the flight attendants' union yesterday by claiming that it would be back to normal operations by the end of the week. Terry Bedsworth reports from New York.

The dispute, which followed the breakdown of talks on a wage-cutting plan for the hostesses, has forced the company sharply to reduce regular services.

The company's statement yesterday was accompanied by promises of 30 per cent fare reductions across the board.

Colombia poll marked by tight security

BY SARITA KENDALL IN BOGOTA

PRESIDENT Belisario Betancur's efforts to bring Colombia's guerrilla movement into the democratic arena are being tested in today's congressional and local government elections.

Apart from the usual array of conservative, liberal and other party candidates, voters can also choose former guerrilla fighters to represent them. Accusations of intimidation and armed propaganda have accompanied the campaign run by the Patriotic Union, electoral arm of the Soviet-line Revolutionary

Armed Forces of Colombia (FARC).

Voting began amid strict state-of-siege security measures, with police and army units patrolling the capital.

The Government has promised severe penalties for anyone found trying to buy votes, and has dismissed or suspended over 200 civil servants allegedly involved in electoral fraud.

There are hopes that the abstention rate — traditionally over 50 per cent — will come down. However, residents in

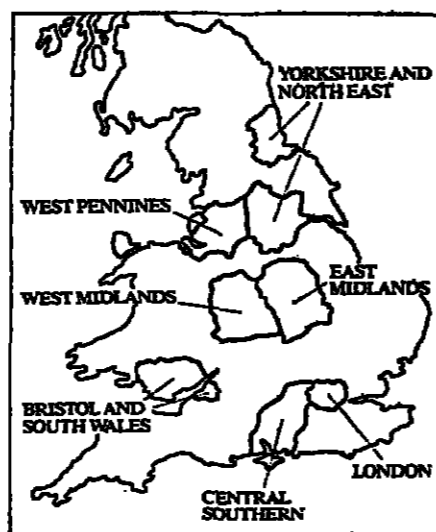
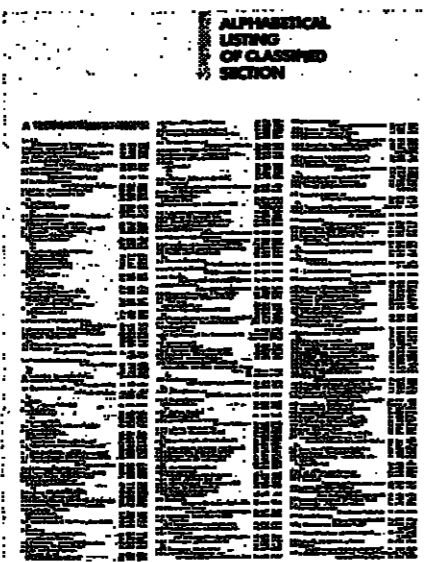
some Bogota suburbs have denounced threats by the M19 guerrilla group to take reprisals against those sporting the red-inked index finger that is proof of voting. Politicians and government ministers are presenting the elections as a plebiscite for democracy.

The voting will also measure the strength of the candidates for May's presidential elections. Sr Betancur's term finishes on August 7, and there are three main contenders in the fight to succeed him.

**FINANCIAL TIMES**  
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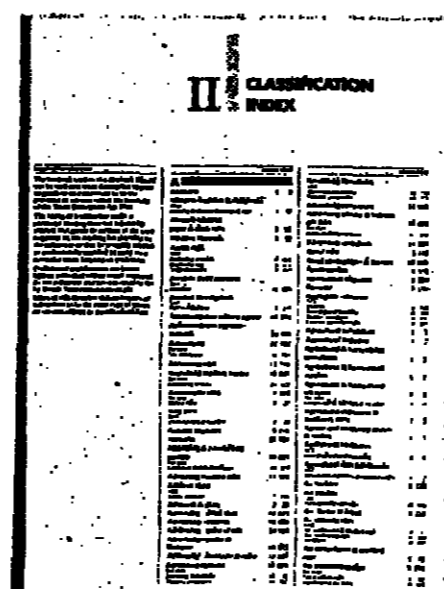
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WEST PENNINES 1986

SECTOR FORMAT

OVERSEAS NEWS

Mubarak urges swift action on economy

By Tony Walker in Cairo

Egypt's President Hosni Mubarak has demanded swift action to deal with his country's economic problems...

French fears Beirut kidnappings

By David Marsh in Paris and Nora Soutany in Beirut

The weekend kidnapping of four French TV journalists in Beirut has placed renewed pressure on the French Government...

EEC Mafia report faces rejection

By Ivo Dawney in Brussels

A REPORT by the European Commission into links between the Mafia and farm frauds in Sicily is likely to be rejected as inadequate by a watchdog committee of the European Parliament.

mittee last month. Its conclusion that "the impact of the Mafia on farm costs appears weaker than was previously believed..."

aid is plentiful. A separate investigation into olive oil fraud in Italy has calculated that about Ecu 12.7m in expenditure has been claimed fraudulently.

Soares pledges political stability

By Diana Smith in Lisbon

MR MARIO SOARES, the new Portuguese President, has extended an olive branch to the minority Social Democrat Government...

Mr Soares, a former Prime Minister, said at his ceremonial swearing-in in Parliament yesterday before 2,000 Portuguese and foreign dignitaries...

EEC accused of failing to adapt to change

By Christian Tyler, Trade Editor

THE EEC nations' failure to adapt to change is stifling their domestic economies and damaging world trade and growth...

Nato referendum battle nears end

By David White in Madrid

THE TWO organisations which have led the movement to vote Spain out of Nato in Wednesday's referendum staged a festive finale to their campaign yesterday...

and Mr Alfonso Guerra, his number two, as a reminder of their opposition to Nato before Spain joined the alliance in 1982.

World Bank outlines action on hunger

By Michael Holman

Over 700m people are undernourished despite the fact that there are ample food supplies, says a World Bank report published today.

Only by raising the real income of households can food insecurity be relieved, says the report, citing famines in which local food prices barely rose...

Divisions cloud Israeli right wing convention

By Andrew Whitley in Tel Aviv

ISRAEL'S right-wing Herut Party opened its first national convention for seven years in Jerusalem yesterday, deeply divided by a bitter leadership quarrel.

Opec crude oil output 'to fall by 1m b/d'

By Ivo Dawney in Geneva

CRUDE oil production by members of the Organisation of Petroleum Exporting Countries (Opec) will average nearly 1m barrels per day (bpd) less in the first three months of this year than in the last quarter of 1985...

Ugandan army captures strategic northern town

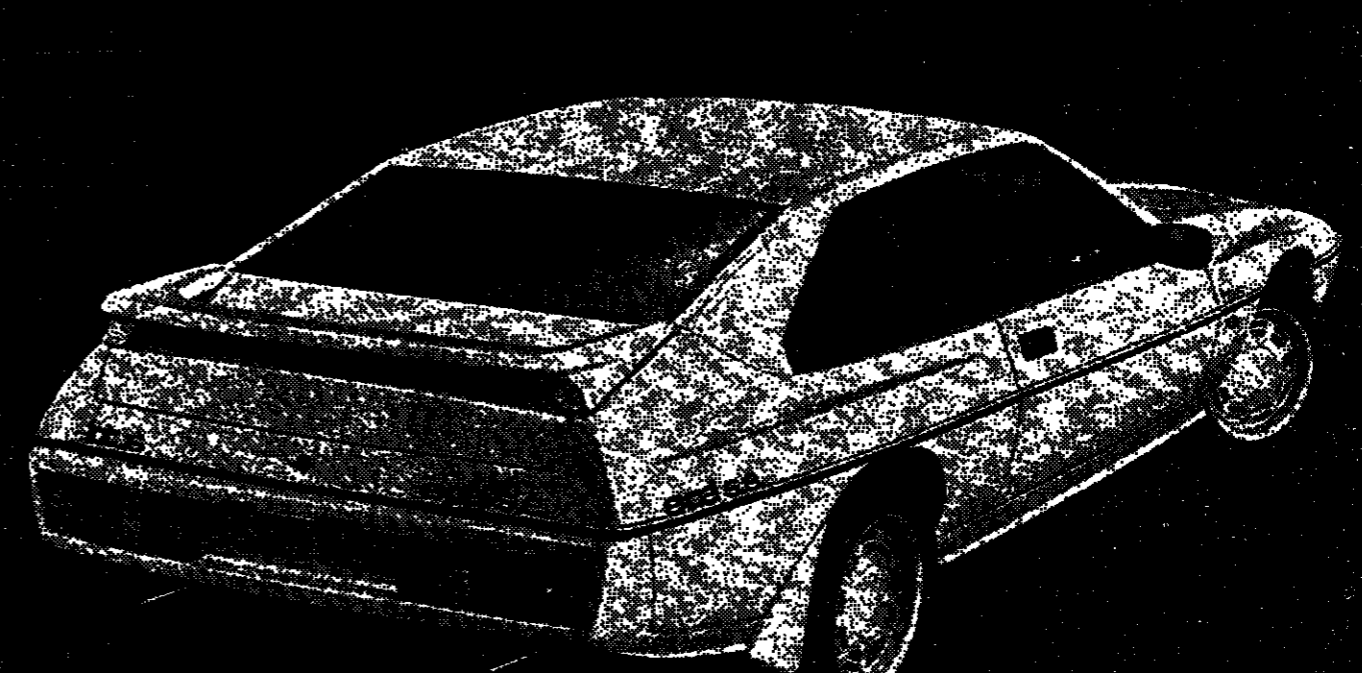
By Catherine Bond in Kampala

UGANDA'S National Resistance Army (NRA) said yesterday that it had captured the strategic northern town of Gulu, breaking the back of resistance by former government troops to the administration of President Yoweri Museveni.

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WORLD TRADE NEWS

Companies sign \$400m Pakistan countertrade deal

BY FRANK GRAY

FOUR international trading companies are understood to have signed commercial agreements with the Pakistan Government to undertake \$400m in countertrade. The agreements provide for each of the companies to handle some \$100m in goods, to be divided equally between imports and exports.

The four companies are MG Services, the trading arm of the Metallgesellschaft and Louis Dreyfus groups of West Germany and France; Prudential Bache of the US; Sukden of France and Mitsubishi of Japan.

Under the agreements the four companies will, in effect, be responsible for implementing Pakistan's Government-sponsored countertrade programme.

Islamabad's decision formally to back a national countertrade programme was first announced last year but it has taken until this month to develop a workable shortlist from the more than four dozen trading companies that sought to participate in the plan.

This stemmed partly from private sector concern over the effect the countertrade programme would have on Pakistan's traditional trading patterns and worries that goods imported through the countertrade mechanism would cost more than if they had been imported normally.

Because of this, the Government has given the companies a one-year trial period to boost the country's chronically weak trade performance. The countertrade programme originally envisaged a target of \$1bn in trade, divided 50-50 between imports and exports, but the Government has been less ambitious at this stage.

Pakistan's total imports for 1985 are expected to range between \$5.5bn and \$6bn, while its export target for the fiscal year ending June 30 is \$3.1bn. The Government is anxious to see the trade deficit narrowed, and this has motivated its drive to use countertrade as a device to achieve this objective.

Goods exported under countertrade are cotton yarn, raw cotton, rice, sports goods, fruit, vegetables, minerals, leather garments, chemicals, fish and fish products and steel products.

Insurance premium rise worries Japanese exporters

BY YOKO SHIBATA IN TOKYO

JAPANESE exporters, already under pressure from the effects of the rising value of the yen, face a dramatic increase in insurance premiums on product liability cover for manufactured goods exported to the US.

Premium rates for US-bond products are set to rise by between 300 per cent and 500 per cent and the ceiling on insurance claims is to be reduced to half or one third of the previous year's level.

This reflects the tough stance taken by the three European reinsurers, Lloyd's of London, Swiss Reinsurance and Munich Reinsurance, because of their mounting losses on underwriting insurance against customer lawsuits in the US.

At the beginning of this year the three European reinsurers notified Japan's non-life insurers that they would not renew reinsurance contracts for fiscal 1986, starting April 1, unless claims against Japanese insurers fell. The three European reinsurers asked for the most vulnerable goods, such as cars, motor-cycles, bicycles and pharmaceuticals, to be excluded.

As a result Japanese reinsurers made a three- to five-fold increase in premium on textiles, office automation equipments and machine tools because these are products on which claims are showing a sharp increase.

Cars are the most vulnerable US product liability suits. Each manufacturer used to take product liability insurance of \$20bn, however, the ceiling on the insurable amount is being halved and premiums are set to increase 10-fold.

Non-life insurance companies are now refusing to cover car insurance on amounts up to \$3bn and Japanese car makers will have to bear losses themselves.

Taisho, an insurance company said: "Japanese carmakers are now on an equal footing with General Motors and Ford in the US as far as risk cost is concerned."

The European reinsurers also asked Japanese insurers to exclude goods manufactured in the US from their insurance cover. US subsidiaries of Japanese insurers underwrite products manufactured by Japanese car or electric appliance makers in the US, whose risks are reinsured in Europe by their parent insurance companies in Japan.

A Japanese insurance company said: "Even though there is growing criticism of high product liability premiums as a non-tariff barrier, Japanese exporters will have to adapt to the changes. They will have to realise that exporting to the US is a high-risk and high return investment and that high risk will not any more be covered by product liability insurance."

Textile producers paper over differences

BY ROBERT THOMSON IN PEKING

REPRESENTATIVES of developing textile-exporting countries meeting over the forthcoming Multi-Fibre Arrangement (MFA) negotiations are resigned to an extension of the arrangement, although they want it to be abolished.

Diplomats said that during the closed meeting, which ended on Saturday, representatives worked to convince countries such as Bangladesh and India that an extension of the MFA, to run out in July, is inevitable and a campaign for it to be ended would be futile.

One diplomat from a represented country, however, said the agreement reached was "just on paper." Everything depended on "how the north world behaves... you can al-

ways agree and agree in a conference, but in real life it is different. I am not very hopeful," he said.

About 120 representatives of developing countries and international organisations gathered in what was their last meeting before talks begin after Easter on the future of the MFA, which governs a large portion of world trade in textiles and clothing.

The joint statement released by delegates said the developing countries agreed "that the present trade regime in textiles has to be liberalised in the removal of restraints and be phased out over an agreed time frame."

Proving that the statement means all things to all coun-

tries, it calls for negotiations aimed at providing "most favourable treatment for the least developed countries without prejudice to the trade interests of established developing suppliers."

Mr Felipe Jaramilla, the vice-chairman of the meeting and chairman of the Council of the International Textile and Clothing Bureau, was reported by the Chinese news agency, Xinhua, as saying that the meeting was a success, but that continued unity is a necessity.

Wang Ruixiang, vice-president of the China National Textiles Import and Export Corporation, told the gathering that China's textile exports, which account for a fifth of the export income, were hit last

year by trade restrictions, and products have had to be stockpiled.

The European Community plans to help China spruce up export marketing to cut its yawning trade gap with the 12-nation group, Reuter reports from Peking.

The community is to hold a seminar in Peking later this year to advise Chinese exporters on how to improve the advertising, packaging and marketing of their goods.

European Commission and member state representatives outlined their plan at talks this week with Chinese government officials, who complained about a big trade deficit with the community last year.

Boeing hunts for more prop-fan airliner partners

THE JAPANESE aerospace industry's decision to take a 25 per cent stake in the financing, design, development and production of the 737, Boeing's revolutionary new \$3bn (£2.1bn) prop-fan airliner for the early 1990s, is expected to be followed soon by further international partnerships on the programme.

Boeing is already in discussion with other interested companies in the US, UK, Western Europe and elsewhere, with a view to some of them participating on the same risk-sharing basis as the Japan Aircraft Development Corporation (JADC).

Boeing says that "wherever there is an aerospace industry or company with the capability, we are talking to them," with a view to extending the 737 partnership arrangements.

The prop-fan airliner employs the principle of harnessing a propeller to a gas-turbine engine and in its latest form it uses new advanced designs for both. The propellers, for example, are shaped like scimitars, with 12 blades mounted on counter-rotating hubs.

The results are claimed to be cuts in fuel consumption of up to 40 per cent compared with the present generation of turbofan engines, and of up to 25 per cent compared with the new generation of turbofans now under development for use in such airliners as the Airbus A-320.

Prop-fan airliners are claimed to be just as fast as jet airliners, but much quieter, with less vibration and causing less pollution. Big prop-fan development programmes are under way by General Electric, Pratt & Whitney, and Allison Division of General Motors in the US, and Rolls-Royce in the UK.

Manufacturers involved, besides Boeing and the JADC, include McDonnell Douglas which has teamed up with Saab-Scania of Sweden, Aeritalia of Italy, and the Chinese Shanghai Aviation Industrial Corporation.

General Electric has already run its prop-fan "demonstrator" (which it calls an "Unducted Fan" or UDF) on a test-bed at Pelee, Ohio, and plans a joint flight test with Boeing this summer in Boeing 727 airliner, with a prop-fan replacing one of the three jet engines.

Next year, McDonnell Douglas is to start its own flight test programme, using initially an Allison 578DX prop-fan mounted at the rear of an MD-80 twin-engine airliner. Later, McDonnell Douglas will also test-fly the GE prop-fan, and has plans for an MD-91X prop-fan airliner at about the same time as Boeing's 737 emerges.

So far Rolls-Royce has no plans for test flights of its prop-fan, and believes that the time-scale set by Boeing and GE is unrealistic. Pratt & Whitney earlier had similar reservations to Rolls-Royce, but the US company is now actively seeking a

link with Allison in the overall prop-fan programme, which means it will get into the fight-phase next year.

This is significant because of the technical differences between the various types of prop-fan now under development. General Electric is working on a "gearless" prop-fan, the hot gas generated in the engine being used directly to turn the propellers without a gear-box.

Pratt & Whitney and Allison are aiming at a gear-box system, as is Rolls-Royce. The US research is jointly funded by the aerospace industry and the Government, through the National Aeronautics and Space Administration (Nasa) so that to some extent the work done on both geared and gearless systems can be shared by all the US companies.

This accounts for much of Boeing's confidence. If the GE gearless prop-fan either does not work as well as expected, or indeed is a failure, Boeing can still use the Pratt & Whitney and Allison geared systems.

In the UK, Rolls-Royce's work is privately funded, but the time, may well come when it will need to undertake a flight-test programme, and may need to seek Government financial assistance.

Boeing itself accepts that the claims for the prop-fans have to be justified, which is why it is pushing for the early start to the test-flights. The sooner the validity of the concept can be proved, the sooner it can authorise full-scale development of the 737, without fear of the programme being subsequently delayed or amended if something were to go wrong with the prop-fan.

As things now stand, Boeing already has 600 engineers working on prop-fans, and this will rise to over 1,000 by the end of this year. Boeing's plan envisages GE giving the production go-ahead for the engine by the end of this year, with the engineering go-ahead on the airliner in mid-1987.

The time-scale is tight, but Boeing and GE believe they can make it. The entry of Japan into the team is a big boost to the credibility of the 737, and it is now certain that other companies elsewhere will join over the months ahead.

McDonnell Douglas is also seeking risk-sharing partners, having already linked with Saab-Scania, Aeritalia and the Chinese, and it could now be a battle between itself and Boeing to win new partners for their respective programmes.

SHIPPING REPORT

Gulf war and oil price unsettle traders

FINANCIAL TIMES REPORTER

THE RESUMPTION of aerial attacks on tankers in the Gulf after a period of relative quiet has left owners facing a further trading hazard. With crude oil prices still sliding, the main cargoes being moved are those under realisation contracts, says shipbroker E. A. Gibson.

At the same time, there was a somewhat better inquiry pattern from the Gulf, with charterers mainly concentrating on Suez Canal size vessels enabling them to maximise the time between cargo delivery and payment.

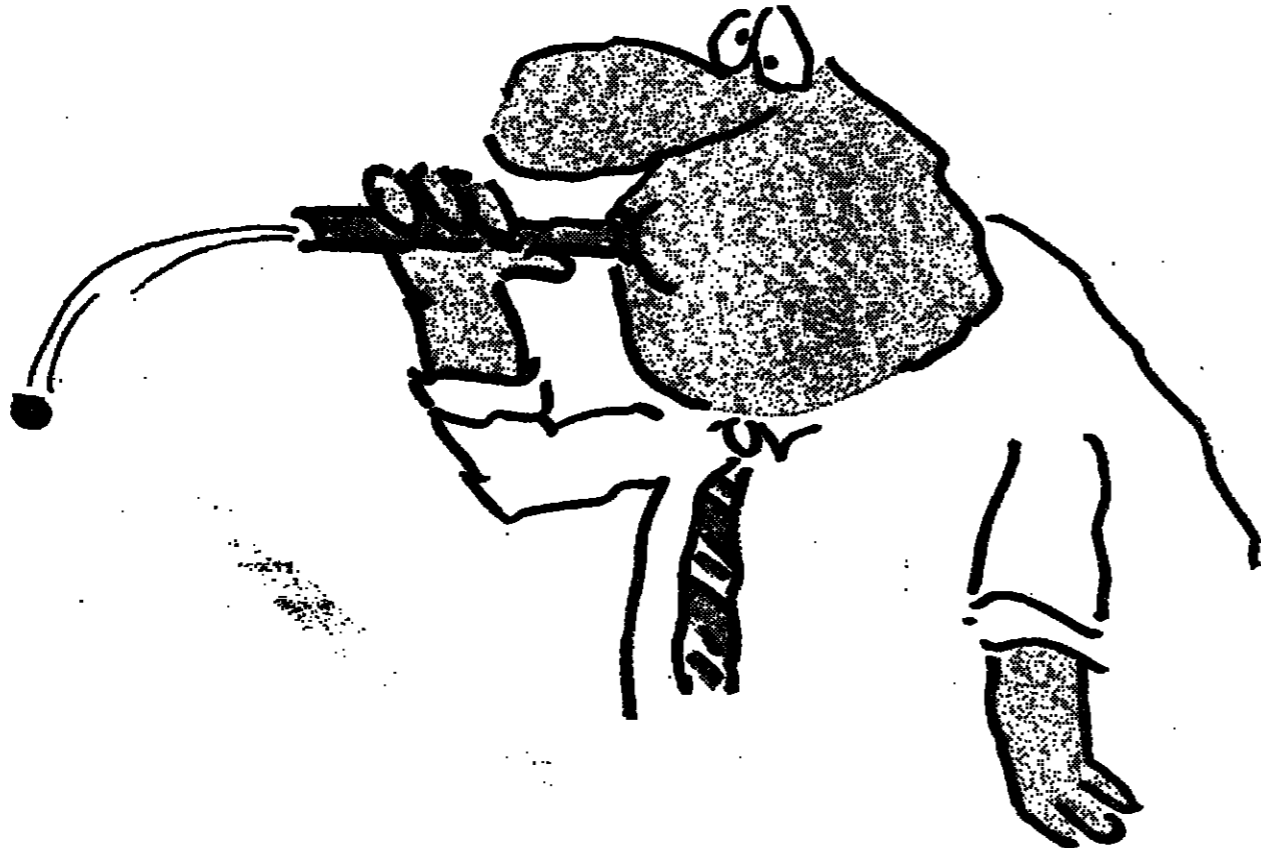
In the clean market, the larger 50,000-60,000 tonners had difficulty finding work. West African activity maintained its previous momentum and the Mediterranean market after a busy start, quietened down somewhat.

In the sale and purchase market, shipbroker Galbraith's said the tanker section had experienced its most active week for some time thanks mainly to Italian buyers. Otherwise there was little other cause for excitement.

World Economic Indicators

Table with columns for Country, Jan. 86, Dec. 85, Nov. 85, Jan. 85. Rows include US, UK, W. Germany, Japan, Italy, Belgium, Netherlands, France.

Source: IMF



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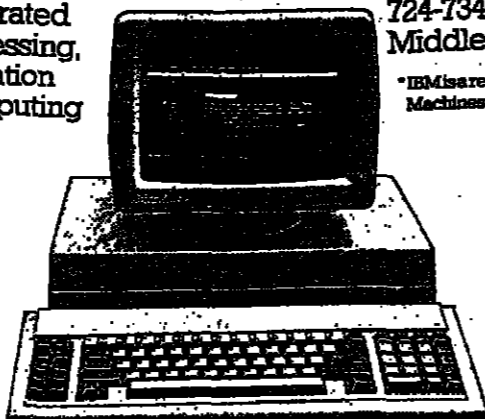
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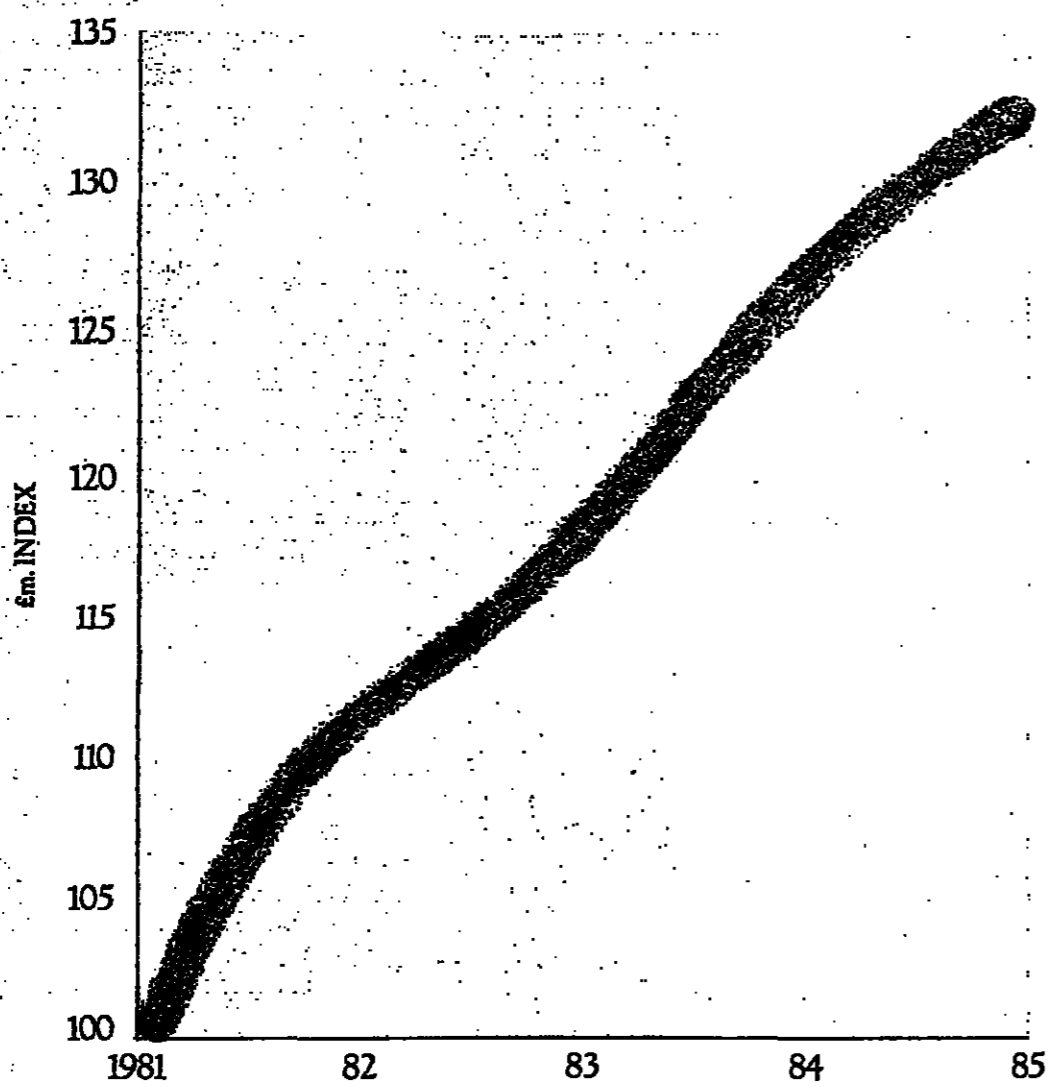
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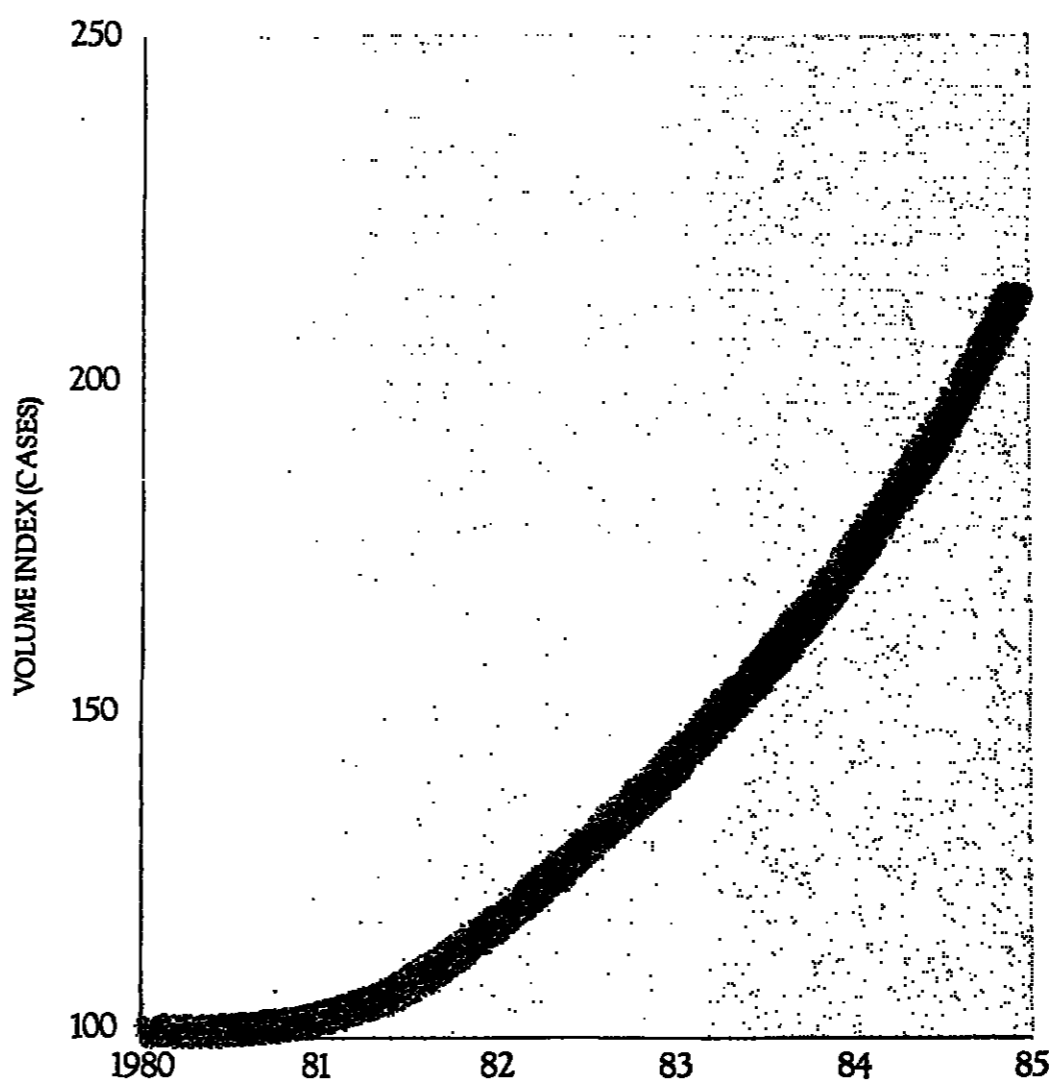
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GUINNESS PLC BREWING WORLDWIDE TURNOVER



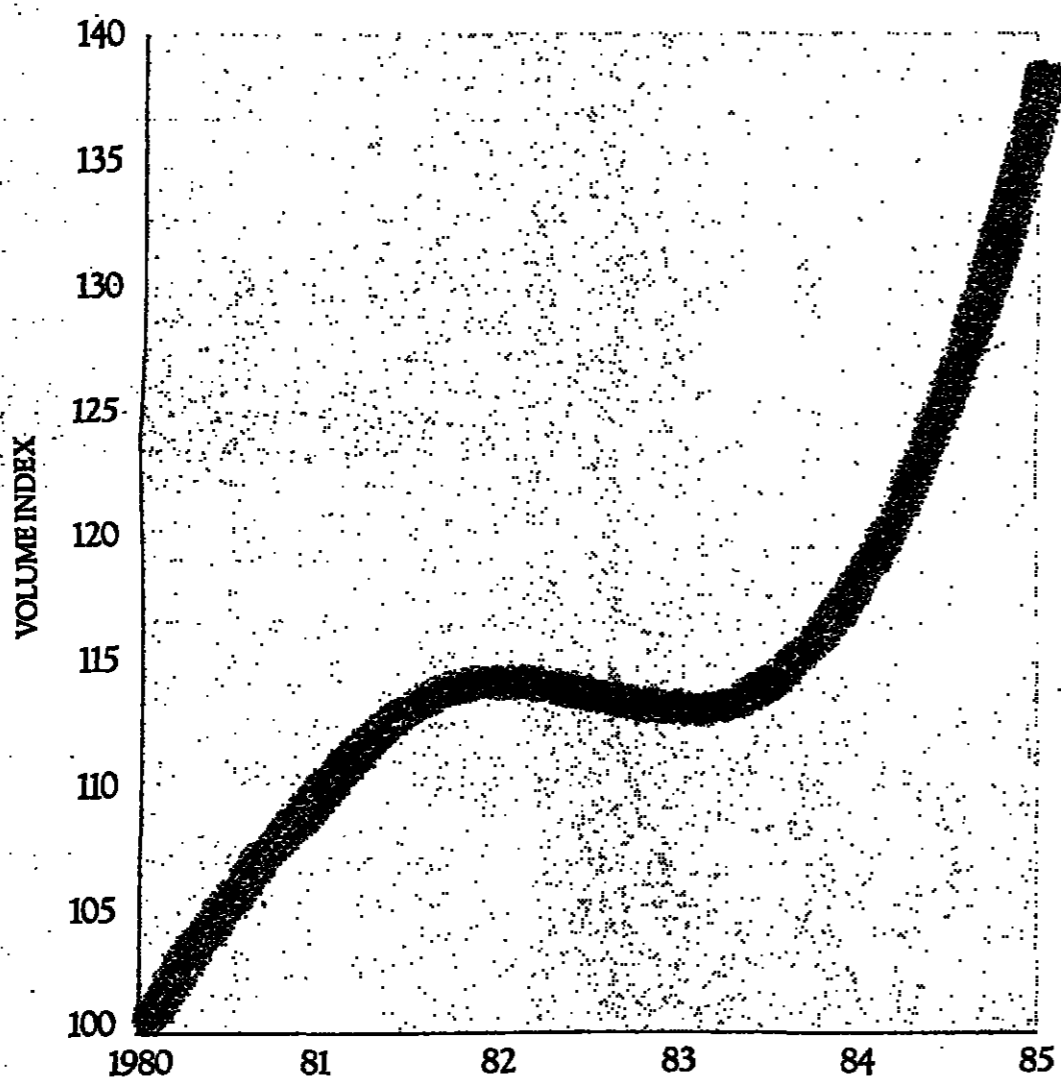
UP 32%

GUINNESS PLC USA SALES



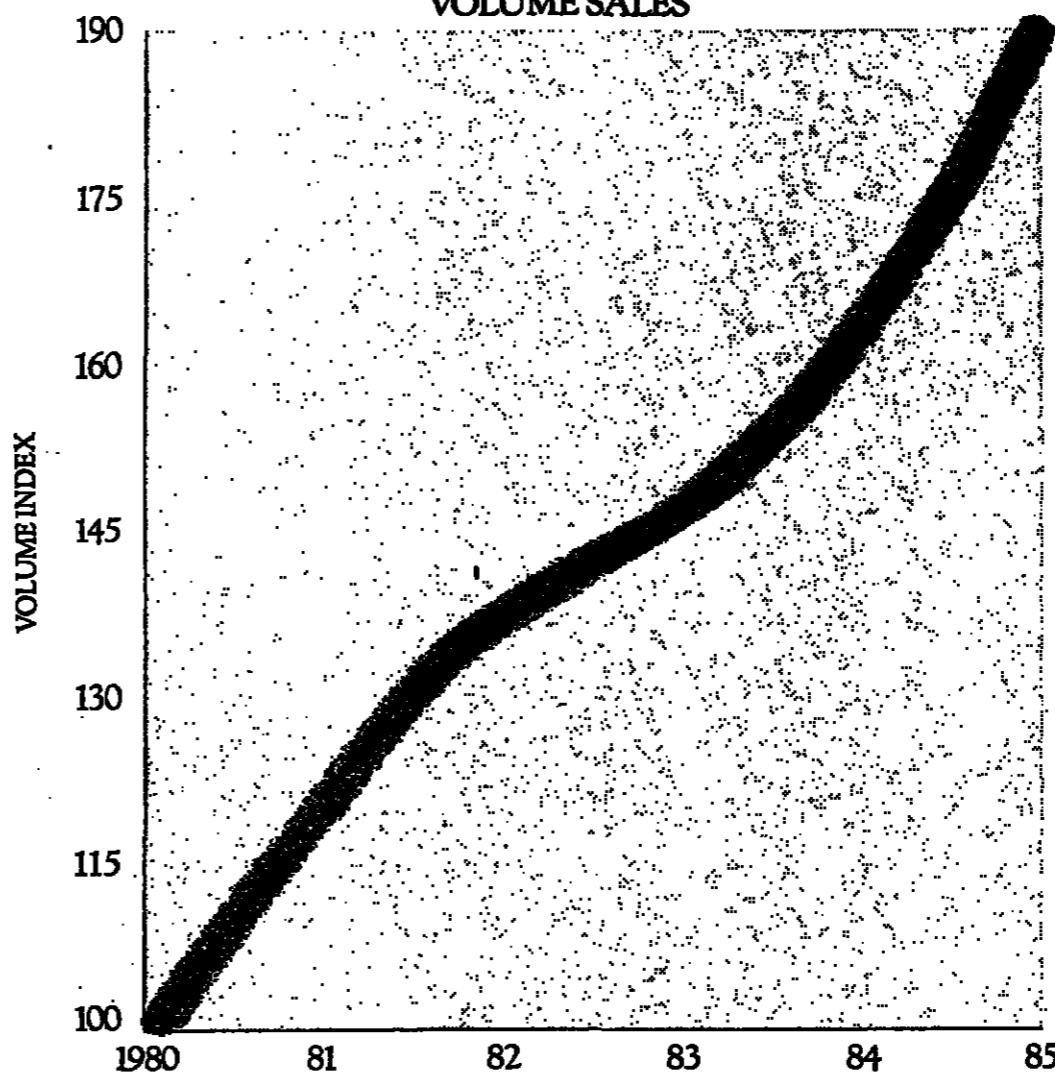
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GUINNESS PLC EUROPEAN VOLUME SALES



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## UK NEWS

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## Fund for rebel councillors proposed

By John Hunt

PROPOSALS for a special hardship fund to help councillors in Liverpool and Lambeth who face a huge bill for rate (local property tax) surcharges are being suggested by Dr John Cunningham, Labour's environment spokesman.

The scheme, which has the backing of Mr Neil Kinnock, the Labour Party Leader, will be put forward today at a meeting of the Local Government Advisory Committee of Labour's National Executive Committee.

The intention is to help those councillors who face special hardship and might have to dispose of property and other possessions to meet the surcharge bill which totals £212,000.

As Mr Kinnock and Dr Cunningham have condemned the left-wing tactics in Lambeth and Liverpool the setting up of a voluntary fund will leave them open to strong criticism from the Conservatives.

Nevertheless, the possibility of controversial left-wing figures such as Mr Derek Hutton, deputy leader of Liverpool council, and Mr Ted Knight, leader of Lambeth council, receiving money is not ruled out.

Dr Cunningham said last night that it would not be a question of bailing the councillors out from the consequences of their own actions.

"We want to see whether we can help in cases of real financial hardship," he said. "These people have had a very difficult time."

## Education vouchers to be reconsidered, Tebbit indicates

By John Hunt

MR NORMAN TEBBIT, the Conservative Party Chairman, indicated yesterday that the Government was prepared to look again at the possibility of introducing a system of educational vouchers to enable parents to choose which schools their children attend.

"I think there may well be room for an education voucher scheme if we can find the right one," he said in an interview on TV-am. His remarks came as Mr Giles Radice, Labour's Education spokesman, wrote to the Prime Minister denouncing such schemes as "educational red herrings" and challenging her to deny that she wants to introduce vouchers.

Sir Keith Joseph, the Education Secretary, who has been the chief advocate of the voucher system, reluctantly shelved it some years ago after strong opposition from officials within his own department.

But Mr Tebbit said yesterday that things had moved on since then. He emphasised that a scheme had to improve education for all schoolchildren, not just those whose parents stood to gain most out of it. That aspect had to be thought about very carefully.

When the idea had been discussed originally it had run up against practical difficulties but had not been rejected on philosophical grounds.

In the wake of the teachers' strike there should be a full-scale debate on education, and that meant that anything could be on the agenda although "it doesn't



Mr Norman Tebbit

mean to say that we take it up." "I don't think one can ever rule it out - it's impossible. Let's see whether it's possible to find a way of using education vouchers in a constructive fashion," he said.

If the Government could find a way in which they would be a positive influence in improving the standard of education for all children then he would be in favour of them.

Mr Radice says in his letter it is disturbing that Mrs Thatcher is lending her support to the campaign for the introduction of vouchers and more fee-charging schools and places.

He calls on her to replace Sir Keith, who is standing down as an MP at the end of this Parliament, and to announce publicly that she does not intend to pursue "irrelevant policies" such as vouchers. She should, he says, also proclaim the Conservative Party's commitment to the state education system.

## Ladbroke expected to bid for retailer

By Jeremy Stone

THE LADBROKE Group is today expected to launch an agreed offer for Home Charm, the second largest do-it-yourself retailer (DIY) in the UK. The bid is believed to value Home Charm at around £200m, including the company's convertible loan stock.

A week ago, Home Charm was forced to announce the withdrawal of a "mystery bidder", after the failure of weekend merger discussions.

After that announcement, its shares fell from 390p to 285p, at which the company would have been capitalised at about £180m. Payless, a smaller DIY chain, was bought last Friday by Ward White for £94m.

Ladbroke is known to have been looking over the past year or so for a fourth major business, to balance its interests in racing, hotels and property. In January this year it held merger talks with Granada, currently the subject of a hostile takeover offer from Rank.

Home Charm, which operates over 100 Texas Homecare stores has been one of the leaders in the race to establish large DIY stores in out-of-town sites. It has been expanding very rapidly, opening nearly 1m square feet of new selling space in 1985.

Home Charm's profits for the year are thought to have been held back by the cost of opening new stores to about the level of £10.8m pre-tax that it made in 1984.

## Vickers to press ahead with its share offer

By David Churchill

THE MANAGEMENT consortium buying the Vickers warship yards - which will build Britain's Trident nuclear submarines - plans to press ahead tomorrow with its share offer to institutions and employees in spite of the possibility that Trafalgar House, which failed in its bid to buy the yards, might seek to challenge the way in which the Government has handled the matter.

Mr Paul Channon, Trade and Industry Secretary, decided on Friday to accept the £100m management buy-out bid for the Vickers yards over the offer from Trafal-

gar House was substantially higher.

Trafalgar's directors are meeting today to consider what action to take next. One option is to seek a formal judicial review of Mr Channon's decision, a process by which the official decision-making procedure can be challenged in the courts.

A number of major companies have recently sought to challenge official decisions in the courts on the basis that they were improperly reached.

However, a judicial review can

only squash an official decision and cannot reverse it in favour of another party.

Trafalgar last night refused to comment on the possibility of a judicial review being sought. "We have nothing to add to our statement on Friday that we are considering the position," he said.

A spokesman for the management buy-out consortium said that it had no knowledge of any judicial review being sought by Trafalgar House. He re-affirmed that the consortium was going ahead with its prospectus offering shares to insti-

tutions, employees, and residents in the area around the Vickers yards at Barrow-in-Furness in Wales and the Cammell Laird yard at Birkenhead on Merseyside.

The Government's decision to accept the management buy-out for the yards rather than the higher Trafalgar offer came as a surprise when it was announced on Friday. Labour MPs, who had been opposed to the sale of public assets, suggested that the Government had lost its political nerve in deciding to support the lower bid from the management consortium.

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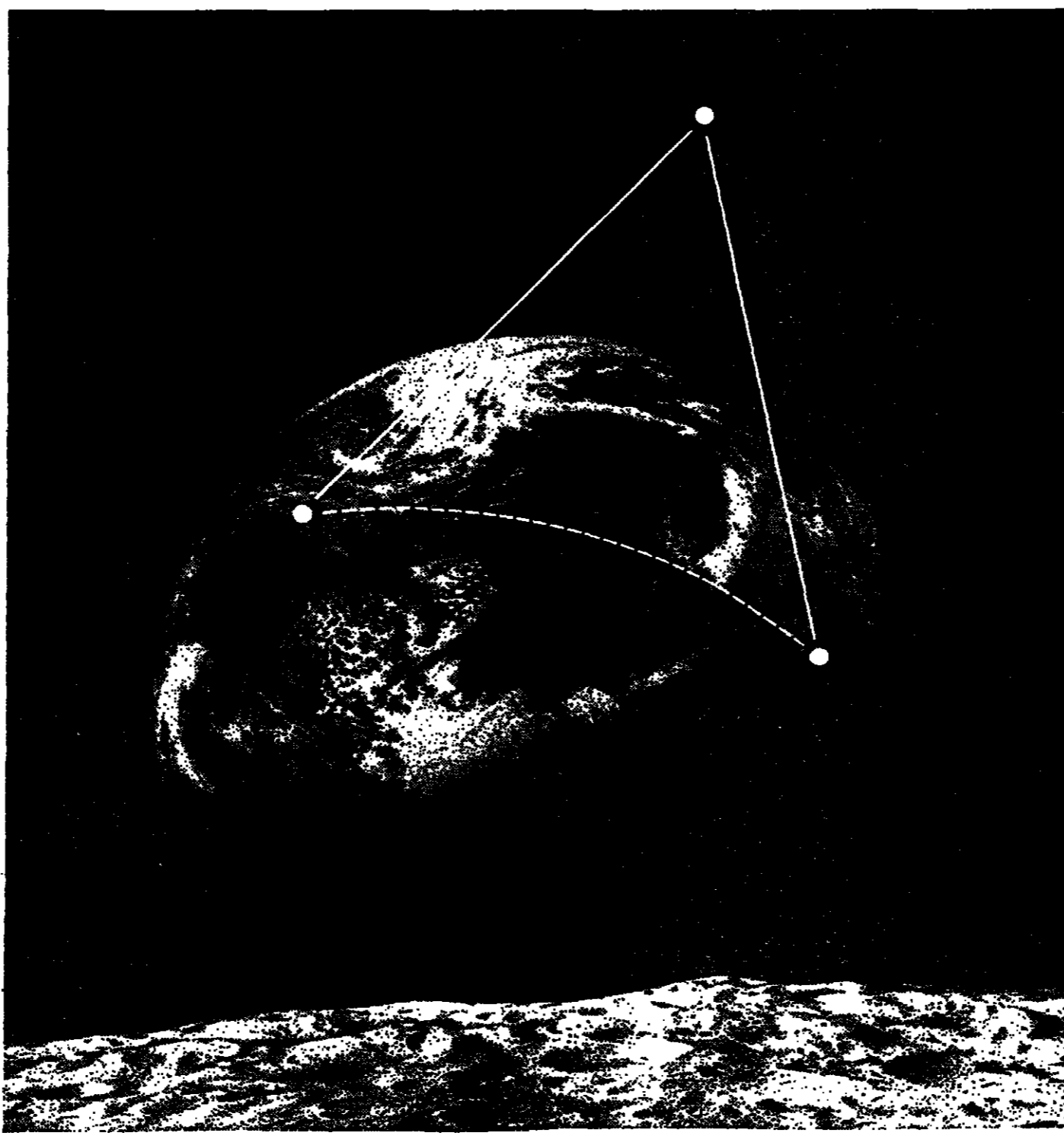
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## UK NEWS

## Demand for Today exceeds capacity

EDDIE SHAH, publisher of today, the new colour tabloid newspaper is facing problems in increasing printing capacity to meet initial public demand for the newspaper, writes Raymond Smedley.

Today is having difficulties in setting up a fourth printing centre planned for Botherham in the north of England, to add to Foyle, near Heston, Airport, Birmingham and Manchester.

"We've got a problem. We still cannot find a proper building in Botherham. We have got to act fast to take advantage of the demand," Mr Shah says, in today's UK Press Gazette.

Sample research on the first three days of Today suggested that 30 per cent of the adult population were looking for copies of the paper, Mr Shah says.

BRITISH TELECOM and D.C. Thomson, the publishers, have each taken a large stake in the Children's Channel, the cable television channel delivered by satellite. A new company, Starstream, has been formed to run the channel in which BT, D.C. Thomson and Thorn EMI each have a one third share.

THE PROVINCIAL newspaper industry is returning to health in the battle against free publications and declining circulations, according to Mr Robbie Thomas, president of the Newspaper Society.

BRITISH CALEDONIAN has won a £3.5m contract from the Post Office to carry first class mail between southern England and Scotland, for two years beginning from April 1. The arrangement is a follow-on contract from a continuous 12-year contract in which BCal has provided the Post Office's main air link between England and Scotland.

SEASIDE RESORTS in Britain still expect as much business this year as in 1985, when many holidaymakers opted for domestic holidays because of sharp price rises by Spanish hotels.

PUBLIC HOUSING standards have reached an all-time low under government pressure for cuts and privatisation, according to a survey of London Boroughs published by the Greater London Council's industry and employment branch.

COMPANIES which successfully introduce new technology have long-term training programmes for their workers and pay structures designed to reward those taking on extra responsibilities and new skills, says a report by a National Economic Development Office.

Dominic Lawson assesses the new gas export rules  
Concession may be too late

ALMOST 20 years after gas began to flow from the UK sector of the North Sea, the Government has finally decided that it can countenance the export of North Sea Gas.

Since the dispensation extends only to hitherto undeveloped fields, and since it is almost certain that the big North Sea gasfields have already been developed, it may appear to be a case of too little, too late.

But after Mr Peter Walker, the Energy Secretary, announced on Thursday the Government's willingness to allow the export of gas, there was no doubting the sighs of pleasure emanating from the boardrooms of the leading North Sea exporters.

For years these companies, such as Shell, Esso, and British Petroleum, have lobbied for the move. They argued that British Gas's position as a virtual monopoly buyer of UK gas had led to such low prices being offered in the 1970s that UK gas exploration dried up altogether, and that this could happen again.

They looked enviously at other sections of the North Sea, from which their affiliates charged significantly higher gas prices to the competing continental utilities. Sir Denis Rooke, the chairman of British Gas, argues that if Britain has been lucky enough to discover a natural resource, then the British people deserve to have the benefit of that good fortune in the form of cheap gas.

This argument has in the past appeared attractive to some elected politicians who did not like to be accused of putting up the heating bills of pensioners to line the pockets of the oil multinationals. But the planned privatisation of British Gas has altered the old political equations.

The Treasury sees privatisation as a key means to strengthen competitive forces and has pushed consistently for the opening up of free trade in gas. The Department of Energy has always been the most dirigiste of government departments, enjoying the control over North Sea developments the gas export ban provided.

But the Energy Department had to recognise that control over North Sea depletion was not a proper role for a private sector company. There is no reason to line the pockets of the future shareholders of British Gas plc any more than those of BP Shell or Esso.

Continental sale contracts currently value gas only marginally higher than similar contracts signed recently between North Sea producers and British Gas. With continental contracts linked more closely to the price of oil, it is likely that soon the British Gas price will be in line with European prices.

Even if there were a big price incentive for North Sea producers to rush into talks with Distrigaz of Belgium or Gasunie of the Netherlands or Ruhrgas of West Germany,

these utilities might not be too interested.

The are already overlooked with gas through the 1990s and are about to sign a contract with Statoil of Norway to take enough gas from the huge Troll field to see them through to the next century.

The Government has said that it will consider export proposals on a case-by-case basis, bearing in mind the security of the UK's gas supplies. This has always been the official position in theory, but now the Government is signalling that the answer to such a request will be yes, rather than no. But the case-by-case caveat appears to be little more than a sop to British Gas's injured feelings.

Most of the future North Sea gas developments will be far too small, considered individually, to influence the security of the UK's gas supplies. And it is most unclear whether, under the Treaty of Rome, the Government will be able to give permission for one company to export gas and refuse a request from another company.

British Gas's main concern will be whether it will have a similar freedom to import. Only last year the Government vetoed a British Gas plan to buy \$30bn of gas from Norway's Sleipner field. British Gas's view that it may not have enough gas to meet UK demand in the mid 1990s can only be sharpened by the lifting of the export embargo.

## A neutral budget expected by City

By Philip Stephens, Economics Correspondent

THE CITY of London is expecting a neutral budget on March 18, with any cuts in income tax offset by increases in indirect taxes, particularly on petrol.

Mr Nigel Lawson, Chancellor of the Exchequer, began drafting his budget speech at the weekend amid signs that the Treasury is anticipating some recovery in oil prices - and hence North Sea revenues - later this year.

That coincided with an upbeat view of the outlook for the economy from the Institute of Directors. Its latest business opinion survey showed that 74 per cent of senior executives had reported an increase in turnover over the last three months, the highest proportion recorded since the survey began in 1983.

However, the Institute is critical of the Government's economic performance and some 51 per cent of respondents argued that Mr Lawson should press ahead with plans for tax cuts in spite of the recent oil price collapse.

The view among City economists, however, is that even with an average oil price of about \$18 per barrel (against the current spot price of \$15) and forward prices of closer to \$19, the scope for net tax cuts is minimal.

A series of reports published today suggest that at best the Mr Lawson could find room for net tax cuts of around £750m and at worst could face additional borrowing of £2bn even if lower income taxes are matched by higher excise duties.

The Treasury's own budget arithmetic will depend crucially on its expectation of both trends in the dollar oil price and on movements in the sterling/dollar exchange rate.

Among measures thought possible in the budget are the introduction of new tax incentives to boost individual investment in the stock market.

## Delay urged over gas privatisation

BY DAVID THOMAS, LABOUR STAFF

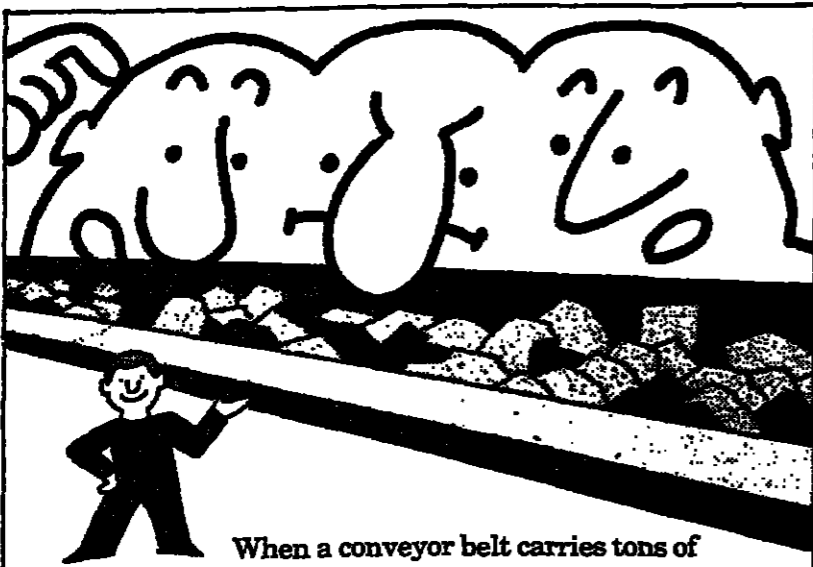
TOP MANAGEMENT in the electricity supply industry should tell the Government to postpone the privatisation of British Gas until after the next election, according to a leading trade unionist in the electricity industry.

Mr John Lyons, general secretary of the Engineers and Managers' Association, writing in his union's journal says immediate gas privatisation will pose problems for electricity after the election regardless of whether the Conservatives win.

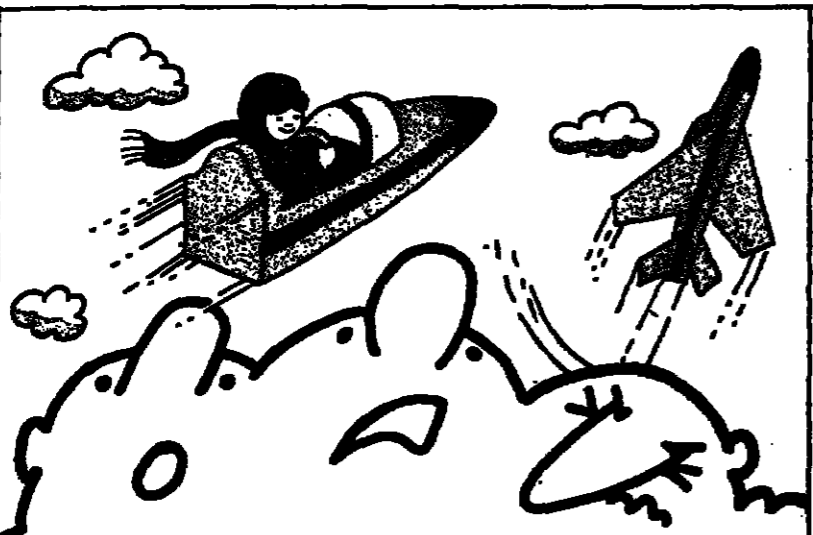
Mr Lyons, whose union represents 33,000 engineers, scientists and managers in electricity supply, says that the Conservatives, if returned in the election, would consider privatising electricity, but would be faced with demands for much heavier regulatory arrangements than in the case of British Gas and British Telecom.

If the Conservatives are not returned, then the privatisation of electricity would be very unlikely.

So whatever happens, Mr Lyons concludes, "very considerable and entirely artificial strains between the two industries will therefore be set up, unless the rules governing the electricity supply industry's performance in the public sector are greatly modified."



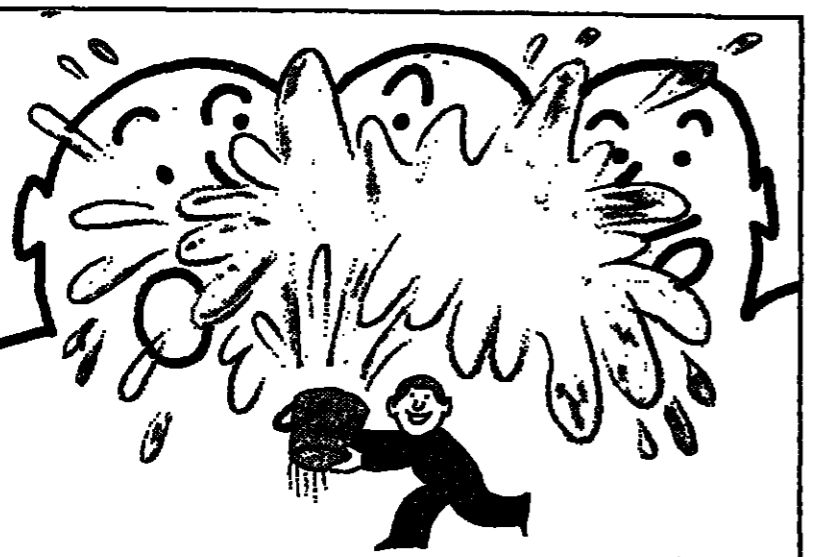
When a conveyor belt carries tons of ore, the jagged rock can cause a little rip which may become a big tear. They say you can't prevent that. But Goodyear said, "Think quick," and created Sensor Guard, an electronic system that shuts down the belt if it starts to rip. So minor problems can't turn into major disasters.



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### UK NEWS

## Labour outlines proposals to recoup tax from well-off

BY PETER RIDDELL, POLITICAL EDITOR

A LABOUR Government would introduce new forms of taxation on the well-paid to recoup amounts received in concessions by the best-off 5 per cent since the Conservatives took office in 1979, according to proposals put forward by Mr Roy Hattersley, Labour's economic spokesman.

He believes that it would be unnecessary and mistaken simply to reverse the tax changes of the past seven years. Instead, new methods of raising a similar amount of money from the better-off should be considered.

Among the suggestions are that all tax allowances and concessions, such as mortgage interest relief, should be restricted to the standard or basic rate of income tax of 30 per cent, rather than, as now, the marginal rate of up to 60 per cent.

The current upper limit on employees' national insurance contributions might also be removed. In addition, national insurance

contributions could be extended to currently exempt categories like investment income, while benefits in kind might also be taken into account.

The main impact would be felt by those earning over £30,000 a year from all forms of income. Mr Hattersley's advisers, including a partner of Price Waterhouse, the accountancy firm, estimate that the highest paid 5 per cent of the population have received more than £3.6bn in tax concessions since 1979.

This has been through cuts in the highest rate of income tax, through the removal of the investment income surcharge and through reduction in capital gains and transfer taxes.

This is apart from other tax changes such as those in share options and stamp duty. In a paper for last week's Labour "cabinet", meeting Mr Hattersley says a Labour anti-poverty pro-

gramme could be financed from money recouped from this group "who have been the only beneficiaries of tax cuts since 1979."

But he warns against giving "the misleading impression that we intend to finance our anti-poverty programme simply by levying higher income tax on this group."

In a note to this paper he says, in raising £3bn to fight poverty "we would not even be taking back all of the tax concessions given."

"Moreover we would not raise the cash simply by reversing the Tory tax concessions. For example, there would be no return to very high rates of marginal taxation which few people paid anyway. Similarly, we would not reverse concessions on stamp duty."

The Government is likely to argue that, in practice, the result of limiting tax concessions would be a sharp increase in effective marginal rates of tax for senior management.

## Directors' pay rises 10% in 6 months

By James McDonald

THE TYPICAL board director of a company, if he had a salary increase in the six months to February this year, received a rise of 10 per cent, according to the March edition of the Charterhouse study on top management remuneration, published today.

The study is based on the annual reports of over 1,000 industrial and commercial companies, and salary and benefits surveys covering 3,000 board and senior management posts in over 400 companies.

It is aimed at assisting companies to plan their remuneration arrangements for board members and for senior management.

In comparison with the six months to August last year, the survey found the rate of increase in directors' salaries had moderated, with the average increase falling from 10.5 per cent to 10 per cent.

The study says that incentives are standard practice for the majority of board directors.

47 Electrical and Electronic companies, 2 Freight Forwarding agencies, 6 Printers and Publishers, 3 Haulage companies, 10 Computer companies, 22 Business and Secretarial services, 4 Packers, 2 Robotic Engineering companies, 25 Mechanical Engineering works, 15 Precision Engineering groups...and a man who makes printed circuit boards.\*



### INSURANCE

## The quiet revolution at Lloyd's

BY JOHN MOORE, CITY CORRESPONDENT

FOR nearly four years a quiet revolution has been taking place in the Lloyd's insurance market. In this period virtually the entire structure of the £3bn market-place has been changed.

The changes in structure have been caused by Lloyd's legislation of 1982 which requires that insurance brokers at Lloyd's should sever their shareholding links with managing agency companies of underwriting syndicates by the middle of 1987.

Lloyd's had been forced to include the provision in its legislation by Parliament because conflicts of interest, actual and potential, had been identified in the relationship between the function of brokers, buying insurance on behalf of clients, and the managing agency companies of Lloyd's insurance syndicates, which sell insurance.

In total 114 agency companies, managing the affairs of 308 insurance syndicates in which a large part of the 28,507 underwriting members is grouped, are affected. The Lloyd's market is composed of around 400 syndicates.

To date around 80 of the affected agencies have divested themselves of their links with insurance bro-

kers at Lloyd's, representing a major part of Lloyd's underwriting capacity of over £7bn.

In his report on the self-regulation of Lloyd's published in 1980, Sir Henry Fisher, a former High Court judge, observed that the eight largest broker-controlled underwriting agencies at Lloyd's were controlled by the eight largest brokers, which account for nearly 60 per cent of the premium income at Lloyd's.

Now, following the restructuring of the market, a new phenomenon has developed: the rise of the mega-underwriting agency.

What has happened in the divestment programme is that little outside capital has come into the market to buy the agencies. Those outsiders who have shown interest have been deterred by the complex organisational structure that Lloyd's created for the future management of the agencies, which has been designed to ensure that operational control of the agencies resides with those who work in the market.

In the change of ownership of the agencies, control has passed either to existing employees and management of the agencies in "management buyout" programmes, or to ex-

isting independent underwriting agencies at Lloyd's who have become larger. Independent groups, such as Sturge Holdings and Merrett Holdings, have become powerful forces in the market because they have consolidated their positions through acquisitions of divested agencies. Together with the divested agencies of Willis Faber, the insurance broker, they are reckoned to command collectively around £1.5bn of Lloyd's total underwriting capacity of over £7bn.

The brokers have argued that the new structure which could emerge will eliminate competition and convert the Lloyd's structure into a corporate entity along the lines of a conventional insurance company. Lloyd's market identity could be eroded. There would be little room in the new market for small underwriting agencies.

The issue is more complex than that. Some of the independent underwriting agencies are now of such a size that they are seeking quotations on the Stock Exchange for their shares. Sturge Holdings is the first agency to gain a full listing.

There are fears within the Lloyd's market that conflicts of interest could operate against the in-

terests of the underwriting members in the new structure.

If agencies, through their Stock Exchange listings, have shareholders to satisfy there will be pressure to impose heavy profit commissions on individual underwriting members - the way in which agencies generate their revenue - and underwrite large volumes of insurance business, which may not be in the interests of underwriting members. The interests of the shareholder and the underwriting member would not be identical, which could create strain in the relationship in the future.

It has been argued that one way around the problem might be for individual agencies to adopt a deficit clause in their underwriting agreements with the members to ensure that the agencies have a direct involvement in any losses which the underwriting members might sustain because of reckless underwriting. At present agencies are rewarded only by a profit commission.

There is no penalty to the agent if the members make underwriting losses other than the elimination of the profit commission on underwriting results.

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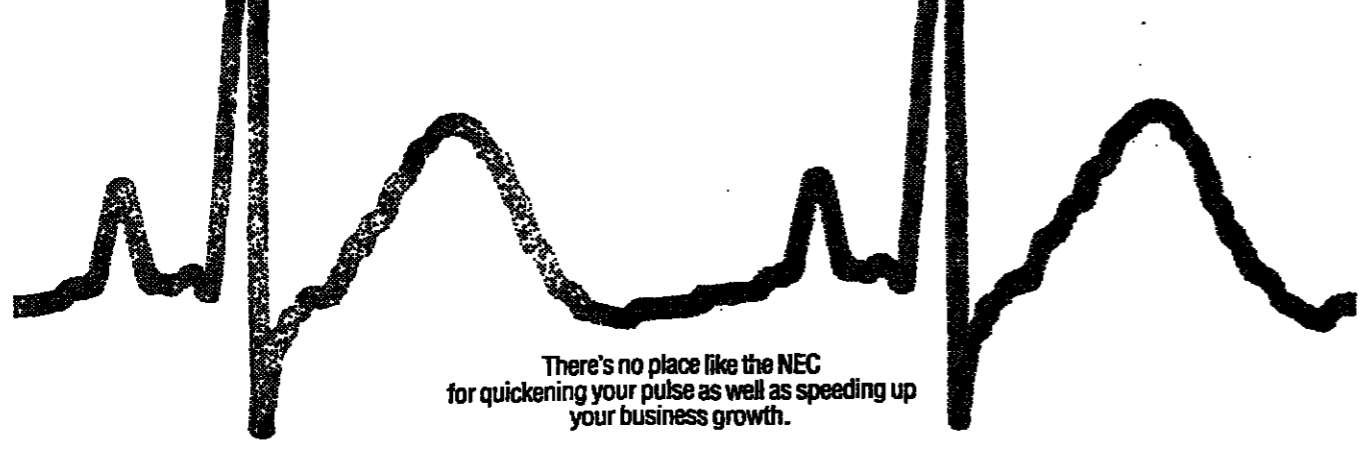


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## UK NEWS

### Oil revenue investment 'ensures Britain a £4bn annual income'

BY ROBIN PAULEY

WHATEVER happens to oil prices, investments as a result of North Sea oil have been enough to give the UK a permanent annual income of about £4bn a year, says the London Business School in a report published today.

Francis Breedon and Giles Keating have constructed one of the most optimistic analyses yet of the oil crisis and Britain's future after North Sea oil runs out. In particular, they disagree with the House of Lords select committee's report which, under Lord Aldington's chairmanship, said the decline in oil revenues would make Britain's balance of payments substantially worse and that significant policy changes would therefore be needed.

The LBS argues that the decline has been anticipated since the oil was first discovered. The UK has used the income from oil to build up capital assets rapidly enough to generate a permanent income of around £4bn a year which will continue in perpetuity. Until 1981 this

mainly involved transactions in overseas assets, but since 1981 domestic investment has become increasingly important.

This argument suggests that the current account surplus - £3.5bn to £4bn in 1985 - will fall much less rapidly than the fall in direct income from North Sea oil.

It conflicts not only with the Aldington Report's analysis but also with other economic analysts who have estimated that the decline in North Sea oil output, the shock to revenues caused by the oil price fall and the poor pick-up in British manufacturing output, could lead to a rapid decline on the current account. That, these analysts argue, could record a deficit as high as £20bn at 1985 prices within the next 10 years. But the LBS thinks the manufacturing decline is over.

The report takes a gloomier view of the effect of Britain's high interest rate policy and now expects both loans and deposits to decline

whether interest rates stay high or come down.

The rate of increase of personal sector bank credit accelerated to 22 per cent in 1985, if direct loans are added to bank loans to building societies and non-bank consumer loans. This boom in consumer loans was accompanied by sluggish corporate borrowing, companies relying more on buoyant internal funds and new issues.

But the savings ratio is also high, indicating that the personal sector is heavily engaged in both borrowing and saving.

Neither borrowers nor lenders expect the unusually high interest rates to last. The borrowers have reacted to increased outgoings by raising loan demand so they can maintain spending. The lenders have put the extra income on deposit rather than spent it.

LBS Financial Outlook vol 3 no 2, LBS, Sussex Place, Regent's Park, London NW 1.

### New London coach terminal recommended

By Lisa Wood

A LARGE new coach terminal in central London has been recommended in a report commissioned by London Regional Transport. Three possible sites, at King's Cross, Paddington and White City are to be further studied.

The report, by Steer, Davies and Gleave, said a new central London coach station could provide facilities for the coach traveller similar to an airport terminal providing good links with the Underground and coach connections to all parts of Britain.

It would relieve the growing pressure on the coach station at Victoria which operates at capacity at peak times, and where there has been concern at the environmental effects of coaches on the surrounding residential areas.

Mr David Bayliss, London Regional Transport's director of planning, said: "Coach terminal facilities have not been expanded to cope with the substantial growth in coach travel since 1980.

### Bureaucracy 'worsening for small businesses'

BY WILLIAM DAWKINS

BRITISH businesses are struggling against greater administrative burdens than at any time in recent history, according to a leading small-company lobby group.

The National Federation of Self-Employed and Small Businesses says in a paper published today that the Government's crusade against bureaucracy is having little effect. If anything, says the federation, which has 50,000 members, burdens on business are getting heavier.

The paper lists 39 ways in which the Government has made life tougher for small businessmen in recent years. "We would contend that the Government has in many

respects shifted the burden, not lifted it," says Dr Bernard Juby, the federation's chairman.

The main burdens highlighted in the paper include tougher penalties for late payment of value-added tax, extensions to sick pay legislation, large real increases in gas, water, electricity and telephone charges and more frequent tax investigations by the Inland Revenue.

The federation is critical of the Government's small-business assistance measures.

Shifting the Burden - The 39 Steps. Free from the National Federation of Self-Employed and Small Businesses, 149 Lower Marsh, London SE1 7AE.

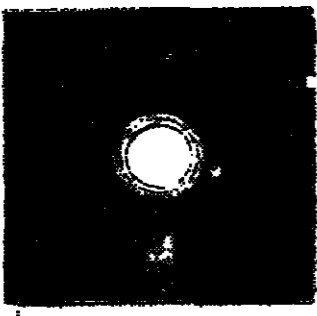
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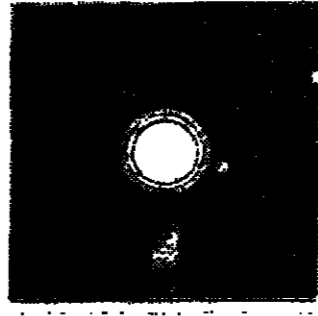
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## TECHNOLOGY

# \$20m gamble to leapfrog into lead

FEW ENGINEERS ever face as daunting a goal as Mr Louis Steen was set about three years ago: to design virtually from scratch a product as complex as a jet aircraft, which would give his company a clear lead in a fast-growing sector of the world market for semiconductor manufacturing equipment.

Mr Steen is managing director of the implant division of Applied Materials, a leading US microchip equipment maker. His mission was to lead a \$20m programme to develop the world's most advanced ion implanter, a machine which carries out a vital process in the production of microchips by blasting silicon with a controlled stream of atoms.

The success of the programme, which was completed last autumn, is vital to Applied Materials' hopes of leapfrogging straight into the front ranks of the \$300m market for ion implanters.

At present, 80 per cent of sales of this equipment are accounted for by just two American companies, Varian and Eaton. There are several smaller suppliers, including Nissin High Voltage and Ulvac of Japan and Veeco of the US.

The machine developed by Mr Steen's team is claimed to be faster than any other on the market. By providing a denser beam of atoms than any of its competitors, it cuts the time needed to process silicon by two-thirds. It is also easier to operate: it can be reprogrammed rapidly by punching simplified "menus" of instructions into a keypad.

## Peter Marsh on an ambitious project which breaks new ground in microchip equipment

The development of the machines is a fascinating story of technological ingenuity. The \$2.3m product, which takes up the space of a small room, has 80,000 mechanical parts, 600 sensors, 32 microcomputers and 750,000 lines of fault-tolerant software, about the same number as in a management system to run a large business.

At its peak, the project was consuming \$500,000 a month, with no certainty of a profitable return. Every Monday morning I felt I was shovelling another \$100,000 into a furnace," recounts Mr Steen.

The three-year development took place in great secrecy in the unlikely location of Horsham, a quiet market town in Sussex, England, some 10,000 km from the headquarters of Applied Materials in Santa Clara, California.

The US company gained this UK base through acquiring in 1980 Lintott, a small British company which was an early pioneer in ion implantation, yet whose management and financial strategies went disastrously wrong in the late 1970s.

The new machine has led to widespread interest in the semiconductor world. "On paper, the machine looks really good," says Mr Joseph Grenier, an analyst at Dataquest, the US market-research company.

Siemens, the West German electronics company, has bought the first production version for turning out a new generation of 1 Megabit random-access memories, chips which can store about 1m digits of information.

Applied Materials plans to sell a further nine machines this year, which would increase its market share in ion implanters from zero to 10 per cent in 12 months.

To achieve this, the company has to win orders from the world's top electronics concerns which include Texas Instruments, Motorola, Hitachi and NEC. Until now, Applied Materials, with annual sales of \$180m, has sold mainly etching and deposition equipment used in semiconductor processing.

Lintott was on the edge of bankruptcy when it was purchased by Applied Materials for less than £1m. The UK company had started life in 1977 making equipment for blacksmiths.

It ventured into general engineering in ion implantation almost by chance. In a fortuitous deal in 1968 with the UK Atomic Energy Authority, Lintott acquired the commercial rights to ion-beam technology developed by the authority's Harwell laboratory.

Harwell engineers had worked out that by stripping atoms of electrons to form ions, separating them in magnetic fields and then accelerating the particles electrostatically they

had a tool with which to bombard silicon.

By projecting ions of boron, phosphorus and arsenic a few millionths of a metre beneath the surface of a silicon wafer, engineers found they could change the material's electronic characteristics to produce dense patterns of transistors and so form integrated circuits.



The Applied Materials team. Left to right: Mike Wauk, Louis Steen, Charles Frucht, Nick Bright, Dr Derek Aitken, Fred Plumb and Mike Hall

of system we were thinking about," says Mr Steen. "We had two of those people at Horsham."

Mr Steen is referring to Dr Derek Aitken, a physicist given the job of developing the ion beam system in the new product, and Mr Fred Plumb, an engineer who devised the power controls.

Others among the 35 ex-Lintott employees who are still with Applied Materials played key roles in the project. The total workforce has expanded from 60 in 1980 to 170 today, of whom seven are American.

These include Mr Steen, a marketing specialist who before working for Applied Materials in California was employed by Motorola and GCA, a big US semiconductor concern.

Two other Americans were given important parts in leading the project: Mr Mike Hall, a systems engineer with experience of the aerospace industry, and Mike Wauk, a semiconductor expert.

The development team created four prototype implanters before building the machine, labelled P-2, which was sold to Siemens.

In between the third prototype and P-2, the engineers redesigned 40 per cent of the parts. "The basic concept was good," recalls Mr Steen. "But in a system as complicated as this you are always going to run into design problems which need attention."

Not the least innovative part of the exercise was the way Applied Materials financed the early part of the development.

In 1982-83, the company was short of investment capital due to other demands for funds caused by a trough in equipment sales.

The company's Horsham accountants arranged a novel financing package in which three investors — the National Coal Board's pension fund, British Technology Group and Moracrest, an investment arm of Midland Bank — put up \$3m to back the development.

With \$2m of its own money and a \$2m grant from the Industry Department, the tranche of cash enabled Applied Materials to spend a total of \$7m on the scheme by the end of 1983.

Applied Materials bought the investors' stake in the project in 1984, after the company was confident the work would pay off.

For January this year, the market research company's interviews identified 2,404 personal computers, sold by its respondents, estimated at nine per cent of the market's total. Of this sample, the percentages sold were 44 by IBM, 15 by Olivetti, 12 by Apple, seven by Compaq and four by Apricot. More on 01-940 7366.

FIZZY DRINKS, ice-cold, can be created at home by a table-top machine called SodaMate. Costing \$100, it is about to be test marketed in the US by Cadbury Schweppes.

Around the size of a home coffee maker, SodaMate contains a pressurised carbon dioxide cylinder and a carbonation tank, which the user fills with 3.5 litres of feed water. A tumbler placed in the dispensing cavity of the casing starts the flow of carbonated water and opens a valve on the underside of a drink concentrate container.

designs can be built up using screen and keyboard so that colour shading of the final image reproduces the exact light and dark effects of an actual glass container.

A full printed technical specification is produced at the same time, as well as colour prints of the screen image that the customer can take away. More on 0977 8465L.

MOBILE RADIO coverage of an area bounded by Blackpool, Preston, Bolton, Manchester and Chester has been provided by Pennine Communications using "trunked radio" technology.

In trunked systems, a radio frequency channel is allocated, by computer, only when two parties need to talk, thus making best use of the available number of channels.

## Europeans in £1.8m research consortium

COMPUTER INTEGRATED manufacturing systems are to be developed by a consortium of three European companies and two universities in a £1.8m project within the Esprit programme.

The three companies are ICL, Dextraing, a UK leader in real time production control systems and Krupp Atlas Datensysteme, the recently re-formed Krupp information technology group.

University contributions will come from the expert systems and knowledge engineering group of Delft, and the production engineering laboratories of Twente, in Holland.

The object of the programme is to make major advances in the integration of computer systems on or near the shop floor at a level which so far "has not been achieved in any commercial system."

It will embrace production planning, scheduling, database management, supervisory control and factory floor data collection.

Then, says the consortium, it will become possible to acquire a system able to provide small to medium-sized batch production runs (where 70 per cent of Europe's industrial production takes place), with flexible manufacturing.

PROFESSIONAL PERSONAL computer hardware sales, which are regularly monitored by Wharton Information Systems, Richmond on Thames, amounted to 219,650 machines in 1985.

For January this year, the market research company's interviews identified 2,404 personal computers, sold by its respondents, estimated at nine per cent of the market's total. Of this sample, the percentages sold were 44 by IBM, 15 by Olivetti, 12 by Apple, seven by Compaq and four by Apricot. More on 01-940 7366.

## Faster and simpler way to produce greater variety of chips

APPLIED MATERIALS' new ion implanter breaks ground in two areas, by offering high beam currents and being straightforward to operate.

The principle is the same as in conventional implanters. Electrons are stripped off a material such as arsenic or phosphorus by bombarding the substance with other electrons.

Conventional implanters operate at no more than about 10mA (milliamperes) while Applied Materials set its sights on a 36mA machine. The higher the current, the more particles are shot at a wafer and the less time is required to effect a given "dose" of ions.

The difficulty lies not in producing more particles at the ion source, but in separating them effectively. The more ions are in the beam, the more they repel each other due to their like charges, broadening the

beam. Broad beams increase the size of the magnet needed to separate the ions. In conventional implanters operating at 36mA, the beam would require a magnet about as big as a desk.

In Applied Materials' design—which, to pack a beam into a small space, uses a novel way devised by Dr Derek Aitken, the implant division's chief scientist—the magnet is a 50-cm cube, about an eighth of the size which would normally be required. In conventional machines,

the beam impregnates one wafer at a time. But with high currents, wafers exposed in this way would be deformed by the extra heat.

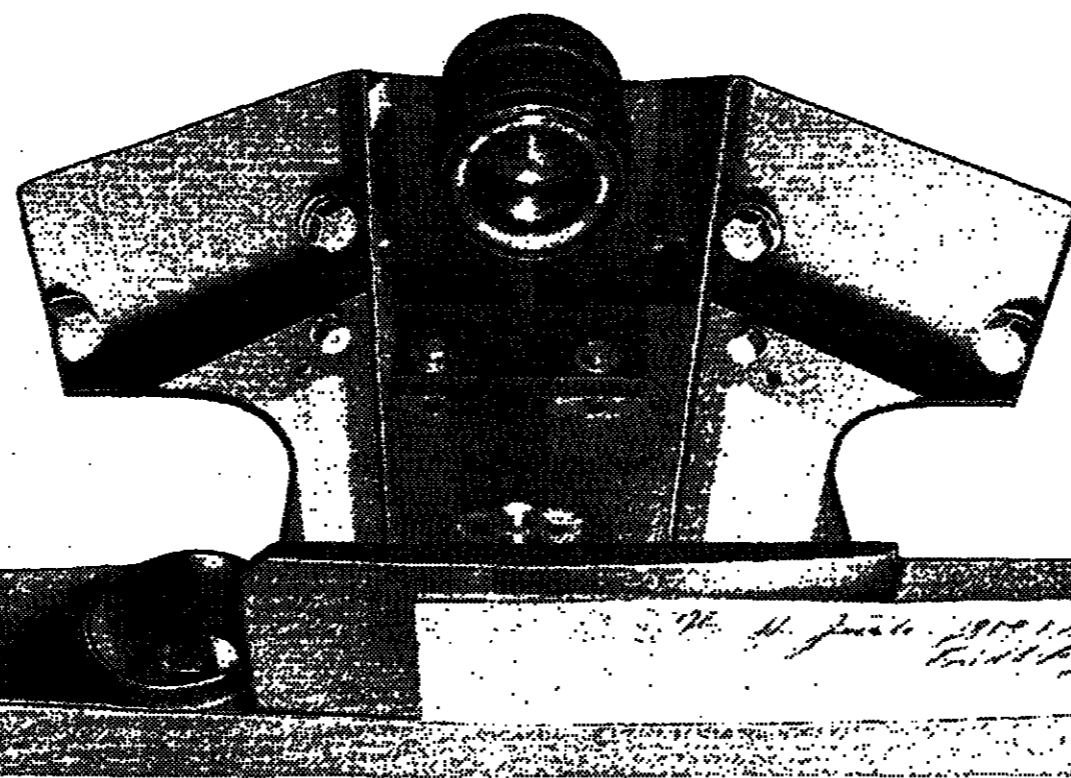
Applied Materials hit on mounting 25 wafers on a large circular disc which rotates through the path of the beam. This innovation, originally devised by Western Electric, the US telecommunications company, ensures that the wafers stay cool, obtaining a burst of energy for only a split second before moving out of the way.

Because of these innovations, says Applied Materials,

the new machines can implant silicon three times as quickly as rival equipment.

The engineering team also built into the machine a large element of automation. Normally, a highly skilled technician is required to "tune" an implanter, manually setting about 100 different factors related to the beam's operation.

As a result, it is time consuming and costly to switch an implanter between different jobs, such as are required, for example, in making the latest generation of chips



## AEG technology has created a "postman" who can sort 160,000 letters an hour... and never takes a coffee break.

Over 36 million letters are mailed every day in West Germany and each letter is checked, rechecked, sorted and resorted before it arrives at its destination.

Only the most high performance "postal worker" is up to handling this challenge. That particular "postal worker" can be found at Frankfurt West Germany's post office number three. It just happens to be one of the most powerful letter-sorting systems in Europe. A system which handles up to 160,000 letters an hour automatically.

At the heart of the system is the address reader, a device which requires but a split second to read an address.

High technology at its functional best... available from AEG.

Over 1300 sophisticated mail-sorting systems from AEG have been installed or are scheduled for delivery to post offices throughout the world.

We can't control rain, sleet, snow or the gloom of night... but we have shed new light on the problem of handling huge quantities of mail. A light created by advanced technology from AEG.

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# AEG

# An invitation to cut Hanson's profit forecast down to size.

## +34%

34%. That's the profit increase Hanson Trust is forecasting for its current financial year.

From £252.8 million in 1985 to not less than £340 million. On the face of it, great news for Hanson's shareholders.

But where will these increased profits come from?

Well, we estimate that around 20% (some £52 million) will come from interest savings arising from last year's rights issue. In other words, a once-and-for-all gain paid for by investors.

Profits, certainly. But are these profits from organic business growth?

Out with the scissors. Lop off 20%.

## +14%

That leaves 14%. Still a relatively healthy increase. But from where?

We estimate that £32 million should come from the first-time contribution to Hanson profits from SCM - a company bought during this financial year.

Once again, not profits from organic growth but from acquisition.

Bang goes another 12% or so.

## +2%

And what are we left with? An increase of less than 2%. Oh dear.

Under 2% of organic business growth.

What's that? Inflation? You mean it hasn't been taken into...

## -?%



The sources for the information contained in this advertisement are set out or referred to in the letter from the Chairman, Imperial Group plc to shareholders dated 6th March 1986. The directors of Imperial Group plc (including those who have delegated detailed supervision of this advertisement) have taken all reasonable care to ensure that the facts stated and opinions expressed are fair and accurate. The directors accept responsibility accordingly.

THE MANAGEMENT PAGE

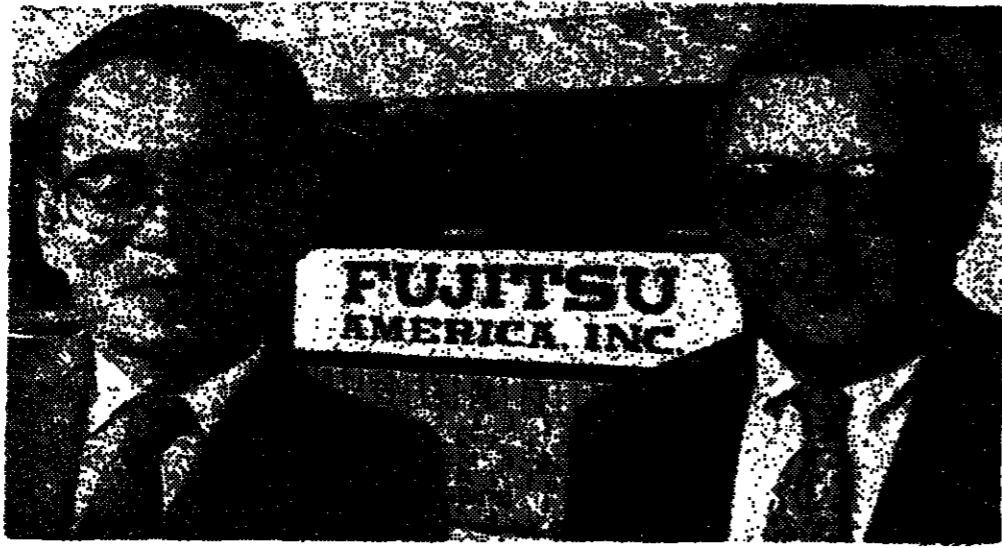
MASAKA OGI may be unique in his appreciation of Silicon Valley's notoriously clogged freeways. He likes driving to work.

Fujitsu America

Cultures in harmony

Louise Kehoe on the Japanese company's adaptation to a key market

"In Japan, a chauffeur-driven car would collect me every day. Then my time was not my own. Here I have more freedom. I am very relaxed," says the 56-year-old Fujitsu executive who was appointed president of Fujitsu America (FAI), one of the US subsidiaries of the Japanese electronics giant, 12 months ago.



Masaka Ogi (left) and Arthur Gemmill appreciating each other's view

Ogi's US colleagues are incredulous, but together surprised by his attitude. While they would cheerfully swap the stress of freeway commuting for a chauffeur-driven limo, Ogi is adapting well to the American way of life, which of course includes a lot of driving, they explain.

Other FAI employees—both American and Japanese—are trained in each other's business practices and culture. Many have taken courses at the Japan-American Institute for Management Science, a Fujitsu-supported college in Honolulu which offers anything from one week's "survival training" to fully blown, postgraduate degrees in cross-cultural management styles.

Achieving a balance between the Japanese approach to business and the "American way" is a major preoccupation at this 10-year-old \$400m a year sales US Fujitsu subsidiary.

"I would like to make this company as Americanised as possible, which means placing Americans in top positions. True, our Japanese staff will still be needed as a link between the US and Japan, but I believe in Americans directing our efforts in America. We are working hard to achieve this. More than 80 per cent of Fujitsu America's workforce is American. The vast majority of management is American," says Ogi.

Presenting itself as an American company is important for FAI, quite beyond its employee relations. In the current atmosphere of trade friction between the US and Japan, the threat of protectionism looms large. Having a strong, and largely autonomous US subsidiary has become a strategic necessity for Fujitsu.

The Americanisation of FAI has been a gradual process. When the company was founded 10 years ago it was essentially a sales office for Fujitsu, staffed mainly by Japanese. Today, FAI's operations in the US range from the sale of Japanese-made computer printers and satellite communications systems to the assembly and test of modems and fibre optic telecommunications equipment at plants in Texas and Florida, and the planned manufacture of disk drives at a plant to be opened this year in Oregon.

The new Oregon plant serves as a model for FAI's approach to Americanisation. Initially, when the plant opened a couple of months, it will be used to assemble drive parts from Japan. Over a three-to-five-year period, however, the plant will become more autonomous, gradually increasing its local parts purchases and developing its own products geared to the US market.

As in other new foreign business ventures, the new manufacturing operation will be closely controlled by Fujitsu from Japan when it first opens. As business matures, however, Fujitsu's practice is to increase the subsidiary division's

autonomy. "When the baby can walk and talk and feed itself, they let go," says John Familletti, senior vice president of FAI's telecommunications group. "There is a very basic belief at Fujitsu that if FAI is going to be successful, then the parent company must vest certain autonomy with the subsidiary."

At FAI's headquarters in San Jose, California, the "Americanisation" of the Japanese-owned company is remarkable. FAI's corporate style blends well with that of Silicon Valley where the traditional trappings of corporate rank are rejected in favour of team spirit.

A major difference, however, between FAI and many of its neighbours is low employee turnover. "We have single digit turnover throughout the company," boasts Gemmill. In Silicon Valley, where engineers are reputed to change jobs "as easily as driving to the next parking lot," FAI maintains a loyal workforce.

The benefits programme offered to American FAI employees is a blend of US and Japanese traits. Dominated by US practices, the influence of Japanese culture is, however, positive, say the Americans. FAI owns 15 condominiums in resort and holiday areas which are available for all FAI employees.

FAI employees do not have a Japanese style "lifetime employment" guarantee. "But layoffs are never even discussed," he adds, "and to fire someone takes the approval of the president." This is in stark contrast to many Silicon Valley companies which often make workers redundant when business turns down. "I try to offer good incentives, especially when business is bad," comments Ogi.

Despite their "cross-culturalisation" efforts, FAI executives acknowledge that cultural and language barriers do cause problems. "The Japanese we work with speak fluent English, but sometimes their level of understanding is not 100 per cent," says Gemmill.

And despite their appreciation of working conditions at FAI, the American executives do not have the same integrated attachment to their company as Japanese Fujitsu employees. The fundamental difference in the day-to-day conduct of business in the US and Japan can also lead to misunderstandings and frustration. The decision-making process is particularly fraught with difficulties.

In Japan, decisions are made by consensus. This jars with the American's typical desire for a quick decision, for example, in contract negotiations.

For Merseyside, an unemployment blackspot in the north west and where labour relations have often been sour and militancy rife, the Cammell Laird transformation is salutary. The turning point came in 1984, when most workers decided the yard could only be kept open by accepting compulsory redundancies, braving pickets' insults, and continuing to work.

Under the wing of Vickers, the big submarine-building yard in Cumbria, Cammell Laird was this year put up for sale as part of the Government's privatisation policy. Bids for the yards, being sold together, were submitted in late February by Trafalgar House and a consortium of management, employees, and financial institutions. On Friday it was announced that the consortium bid, worth up to £100m, had been accepted by the Government.

Company Notices

ROBEKO N.V. ANNUAL GENERAL MEETING OF SHAREHOLDERS to be held on Wednesday, 26th March 1986, at the Hotel, Rotterdam.

AUTOMOBILES PEUGEOT French "société anonyme" Capital: 1,900,000,000. 75, avenue de la Grande Armée, Paris 16ème (France).

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Appointments PRIVATE BANKING OFFICER An expanding international bank requires a private banking officer who will be responsible for marketing equity collateralized lending to key clients in Central and Northern Europe

BIGT BANQUE INTERNATIONALE DE GESTION ET DE TRESORERIE PARIS The Ordinary General Meeting of March 3 1986, held under the Chairmanship of Mr Georges Smolarski, approved the accounts of the fiscal year ended on December 31 1985.

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THE ARTS

Lend Me a Tenor/Globe

Michael Coveney

Here is a quirky enterprise: a smart, inventive farcical comedy set in a 1934 Cleveland Ohio hotel suite...

The less credible premise for the second act door-slaming activities is that the cast and hangers-on fail to spot the difference too...

Rowan Atkinson's new show at the Shaftesbury Theatre is scatalogical, crude and funny, remarkable for its cunning large-scale atmosphere...

Michael Coveney

No mercy is shown, no affiliations declared. The biggest danger in a clever robotic sci-fi spoof is Wogan the Terrible...

Much of the material, written by Ben Elton, Dick Curtis and Atkinson, covers familiar alternative comedy terrain...

The inhalation and transport across the stage of a misplaced follow-spot is perhaps a mistaken steal from the great Popov...



Liza and Rowan: "Show-biz is not what it used to be... it's better"

Liza Minnelli/London Palladium

Martin Hoyle

Show-biz is not what it used to be: it's better. Liza Minnelli is here for two weeks with a superbly drilled and immaculately professional show...

Tailor-made for the star, this song was originally composed by Kander and Ebb for the 1972 vehicle, Liza with a Z...

They suffer in the expensive, glossy and unhelpful programme. The supporting group, The Footlockers, begin with songs a little too long to emerge as precision dancers...

A provincial opera house is plain ghost to "Il Tostardo," the temperamental Neapolitan Tito Merelli...

By this time the play has degenerated into being competent and mechanical rather than, as in the first act, genuinely funny...

The star is proving difficult: Merelli, with a jealous and frustrated, Merelli himself suffering with digestive problems...

Apparently some lunatic dressed as Otello tried to get into the theatre tonight "is the final act tag underpinning mistaken identities of two fuzzy-wigged, jewel-encrusted, baggy-hosed heroes assailed on all sides by lovers and employers..."

A Winter's Tale/Birmingham Rep

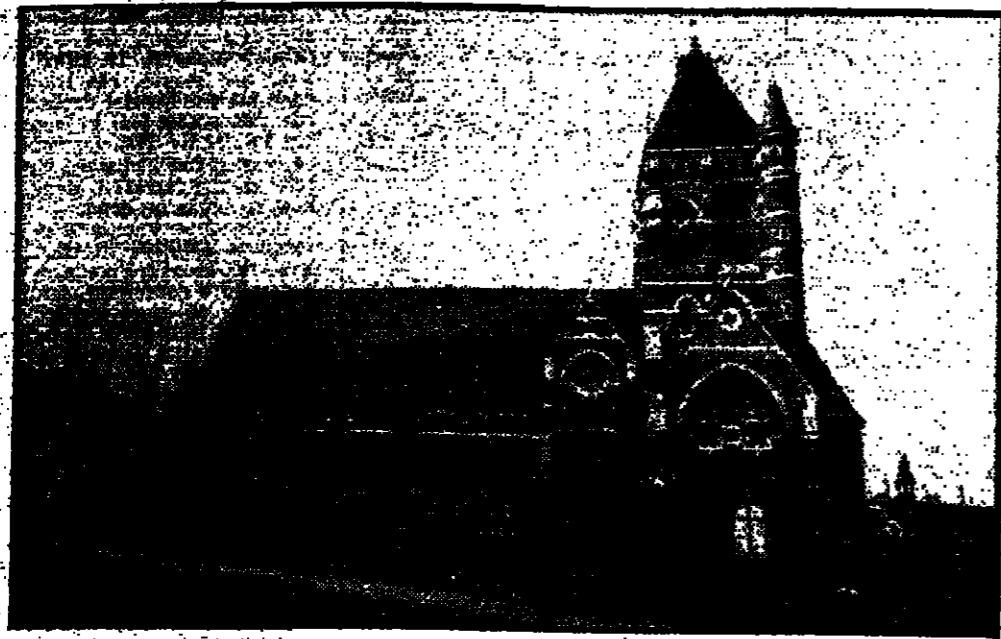
B. A. Young

The vast stage of the Birmingham Rep would hold the entire kingdoms of Bohemia and Sicilia side by side...

deal with, is the first to show how effectively the softer emotions can be played in this great world...

It will not change the rules for churches in use (although they need amendment too) but it could stop the rampant wave of demolitions that is removing so many of the things our ancestors held sacred...

The real fun comes in the second half of the evening, at the shepherd's party, prettily hosted by Sarah Woodward as Perdita...



The great hulk of St Stephen, Rosslyn Hill, Hampstead, is in danger of demolition

Architecture/Colin Amery

Halt to church demolition sought

St. Thomas, Regent Street; St. Lawrence, Brondesbury; St. John, Islington; All Saints, Clapton Park; St. Mark, Notting Hill; St. Paul, Tottenham; St. Michael, New Southgate; St. Mark, Victoria Park; St. Luke, Hammer-smith; St. Peter, Cricklewood; St. Peter, Tottenham; St. John, Kilburn; St. Peter, Limehouse; Christ Church, Lancaster Gate; All Saints, St. John's Wood...

historic buildings have become the concern of the whole nation. Since the passing of the Redundant Churches Act in 1969 some 1,043 churches have been demolished...

Under the Act the church authorities offer a redundant church one to three years, sometimes more, to find an alternative use...

The huge church in Hampstead by S. S. Teulon—St Stephen, Rosslyn Hill—is awaiting a decision on its future. It has suffered while being empty and glass and fittings have been lost or damaged...

It is essential that the Church of England accepts the statutory planning controls that apply to all other historic buildings. Why should Hatfield House or Blenheim be subject to the rules while the cathedrals and parish churches remain at risk...

Tomorrow in the House of Commons, Mr Roger Freeman, the Conservative MP for Kettering, will speak to promote his Private Members' Bill under the 10-minute rule...

Barshai's Mahler/Festival Hall

David Murray

Friday's Bournemouth Symphony performance of the Mahler Ninth demonstrated several things: that the Bournemouth Symphony is a very credible orchestra...

hear it traduced—but they still have a lot to look forward to. In ascending order of obviousness, three faults lamed the performance. One was a failure to give Mahler's extreme expressive accents full value...

lative height of Mahler's bitter statement. There, as elsewhere, the most awkward feature of Barshai's treatment was a continual nuisance: he allowed the Bournemouth strings (properly reinforced for the occasion) to disappear repeatedly beneath the brass and especially the horns...

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Music

LONDON

- Buddiesfield Choral Society and Royal Festival Hall. Royal Festival Hall (Thu). Edna Moser recital (Mon). Théâtre de l'Atchisme (47426727). Ensemble Orchestral de Paris conducted by Yan Pascal Tortelier...

PARIS

- Edna Moser recital (Mon). Théâtre de l'Atchisme (47426727). Ensemble Orchestral de Paris conducted by Yan Pascal Tortelier...

WEST GERMANY

- Frankfurt, Alte Oper: Martha Argerich and Nelson Freire (piano duo); Mozart, Brahms, Rachmaninov, Debussy and Liszt (Mon). The Milwaukee Symphony Orchestra, conducted by Lukasz Foss...

ITALY

- Florence: Teatro Comunale: Bach's Well-Tempered Clavichord, Andras Schiff (Tue and Wed). (2779236).

SPAIN

- Barcelona, Ensemble Clement Janquin and Les Sagueboutsiers de Toulouse. Gabriel, Scheidt and Schutz (Tue); Minchacene Camerata. Mozart and Beethoven (Wed); Spanish Orquesta y Choir IRTVE conducted by Ferdinand Leitner...

NETHERLANDS

- Amsterdam, Concertgebouw: Mosche Atzmon conducting the Netherlands Philharmonic, with Isabelle van Keulen, violin, Bertice, Saint-Saens, Ravel (Tue). (713845).

TOKYO

- New Japan Philharmonic, conducted by Seiji Ozawa. Saint Francis of Assisi by Olivier Messiaen. Tokyo Cathedral. (Wed, Thur). (9458114; 5711880).

CHICAGO

- Chicago Symphony (Orchestra Hall): Sir Georg Solti conducting. Haydn, Bruckner (Thu). (2358111). David Berneholm: piano recital (Orchestra Hall): All Beethoven programmes (Tue). (2556111).

WASHINGTON

- National Symphony (Concert Hall): Michael Tilson Thomas conducting.

PHILLYORK

- New York Philharmonic (Avery Fisher Hall): Zubin Mehta conducting. Gubner and Sacher (piano) duo. Boulez, Mozart (Tue); Pierre Boulez conducting. Phyllis Bryn-Julson soprano, Stravinsky, Debussy, Bizet (Thu). Lincoln Center (8742424).

VIENNA

- Piano evening with Rudolf Buchbinder. Haydn, Beethoven, Buschweiler (Mon). Bach's St John's Passion, Vienna Bach Soloists and Albert Schweitzer Choir, Musikverein (Tue). Vienna Symphony Orchestra conducted by Hubert Soudant with Mariana Niculescu, Soprano, Rein Meens, Renal, Bruckner, Musikverein (Wed and Thur).

Saleroom/Antony Thorncroft

Reynolds in family mood

REYNOLDS was at his best painting courtiers and children, and on Wednesday Sotheby's is offering one of the latter, a portrait entitled Simplicity—Miss Theophylla Gwatkin.

On the next day Sotheby's disposes of British water colours and drawings. The sale includes the best view of Paris by Thomas Shotter Boys ever to appear at auction.

The sitter was the granddaughter of his favourite sister Mary and the picture carries an estimate of £150,000-£200,000, although with the publicity accruing from the Reynolds show at the Royal Academy the actual price could be much higher.

On one occasion he had seven pheasants dead in the air; he also killed 28 birds in a minute. His books record his kills, but are decorated with illustrations. The main reason why he bagged more game than his rivals was that he used three guns at a time, rather than a pair.

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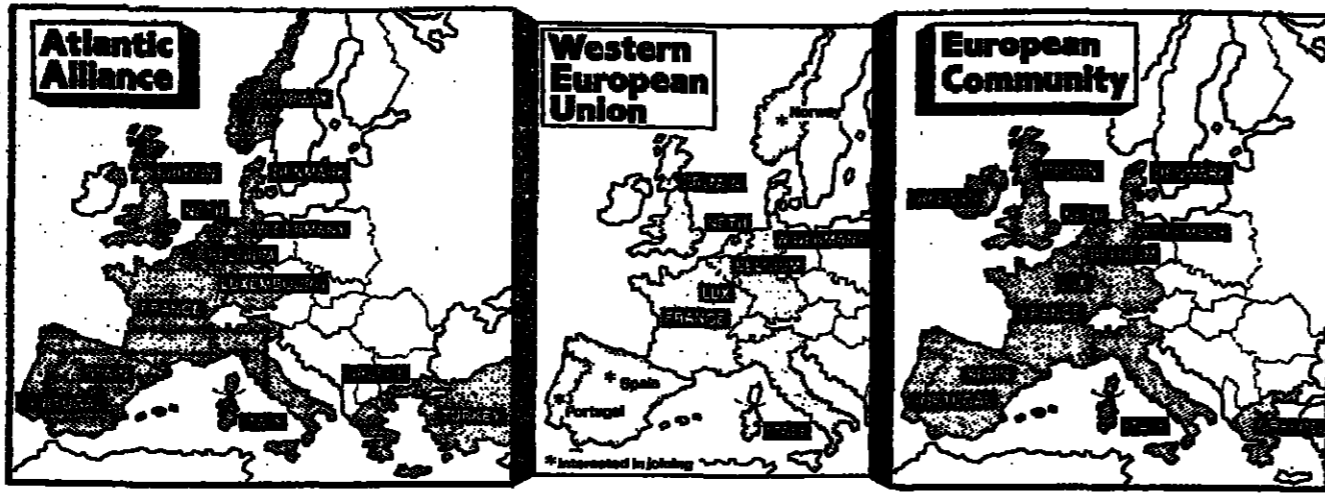




FOREIGN AFFAIRS

Spain against the mainstream

By Ian Davidson



TEN DAYS AGO, Denmark voted in a referendum on the reform of the European Community treaties...

In Denmark, there have long been serious reservations about the underlying political intentions of the European Community...

In Spain, the position is analogous, but far from certain, on the evidence of the opinion polls, that Wednesday's referendum will produce an analogous result...

It does not look as though he has changed the minds of his grassroots supporters...

Conversely, the commitment of Spain to the Alliance must strengthen the Alliance's deterrent value...

never high on the agenda, since Spain does not feel directly threatened by the Soviet Union...

If Nato does not do all that much for the military security of Spain, it is also argued (most recently by Mr Gregory Truverton in a new Adelphi paper on the subject) that Spain does not do a lot for the military security of the rest of Nato...

I take a rather different view: Spain is important to Nato on military security grounds, and Nato ought to be important on military-security grounds to Spain...

Conversely, the commitment of Spain to the Alliance must strengthen the Alliance's deterrent value...

weakness of its forces, but deterrence is most valuable at the margin.

Moreover, Spain's departure from Nato - the first such defection in 37 years - would be a serious political and military blow to the Alliance...

Yet the paradox is that Spain's departure from the Alliance would not satisfy the domestic political urges of the anti-Nato lobby in Spain...

So the net effect of quitting Nato will be to leave Spain face to face with the US, rather than associated with

other European countries in a large alliance. It is most peculiar, on any rational grounds but perhaps not surprising, that from its European neighbours for so long should take a few years to establish a new, democratic and coherent foreign policy posture.

In theory, Spain might be able to square the circle of its conflicting objectives by joining the Western European Union, the exclusively European defence organisation formed by Britain and the Six; in practice, this would be a tricky option.

The fly in the ointment is Article IV, which specifies that the member states shall work in close co-operation with the North Atlantic Treaty Organisation...

So the net effect of quitting Nato will be to leave Spain face to face with the US, rather than associated with

European security."

It does not sound very dramatic, and it may not be very dramatic; but its significance lies in the political determination required to push it through against the resistance of Ireland, Denmark and Greece.

More striking evidence of the growing saliency of the security dimension in the European debate, was the recent agreement between France and Germany, under which President Mitterrand undertook to consult the German government before using sub-strategic nuclear weapons on German territory.

The predicament of the Spanish government is that it is being forced to contemplate departure from Nato, just when the political tide elsewhere in western Europe is running strongly in the other direction...

but at least it is a rhetoric which is a far cry from the traditional shibboleths of Gaullist dogma.

Moreover, he makes some specific recommendations which, if implemented, would carry France a long way from its established nuclear doctrine towards a closer alignment with Nato doctrine...

But in his Le Monde article, Mr Chirac talks a very different language. He recommends the production of neutron "tactical" weapons, decoupled from the strategic systems...

He does not suggest that France should re-join Nato's integrated military framework; but the thrust of his article is that France should work towards an integrated European defence, which in practice might amount to much the same thing...

The significance of the Chirac article is not that it advances revolutionary new ideas, but that it builds on and extends the innovations in French defence policy - the Rapid Action Force, Franco-German military co-operation - which have characterised the Mitterrand regime.

Spain's departure from Nato would be a setback for Nato, for Nato and for Europe. A setback, but not a tragedy; it might compromise, but it could not reverse, the growing realisation that foreign policy, defence and security must receive greater attention in the construction of the European enterprise.

Spain's Domestic Politics and Security Policy, Gregory F. Treverton, Adelphi Papers 204 £5.50. ISS, Tavistock Street, London, WC2.

Lombard

Only the clever get to work

By Nicholas Colchester

THIS BRITISH Government and, one suspects, the majority of the readers of this newspaper, believe in their bones that full employment will somehow come out of the wash if only labour markets can operate flexibly...

At the recent annual meeting of the UK-Japan 2000 group (a sort of Anglo-Japanese Knigge winter conference), Professor Ronald Dore, of the Technical Change Centre, produced a depressing but convincing argument why this faith may be misplaced.

Why doesn't the free market compensate for this unwanted hand-down of leisure? The second strand of the Dore thesis is that technology has created relatively rich societies which feel morally obliged to provide welfare support at a level above the added-value per capita that a large, relatively untrained part of the population can contribute to the economy.

A licence to make money

From Mr J. Jerram

Sir - The Government's programme of transferring public assets to the private sector has excited a certain amount of controversy, both as to ideology and as to price...

Letters to the Editor

economy to absorb this slow-down without the disruption to which your articles allude. Indonesia's record of economic growth and development has always been predicted on sound and prudent fiscal management...

drivers on their earnings. One commented that his basic 39 hour week earned him £105. He added that this was "about £80 take home pay, so you'd be better off on the dole."

When the tax "threshold" was introduced it was equal to average earnings. To-day these are £178 per week but the basic two children threshold is £97 and this is driving an increasing number of taxpayers into voluntary unemployment.

Unless the Chancellor raises the threshold dramatically, unemployment will increase. After all, he stated in the last Budget that "too many people start paying tax at too low a level."

Business law studies From Mr T. Wolstencroft

Sir - Stephen Hall-Jones (March 6) advocates various measures to close the gap between managers and their legal advisers. Such remedial action is obviously vital for those already employed in industry...

Support for BL From Mr J. Dunlop

Sir - Recently in the Commons while defending the Government's handling of British Leyland, Mrs Thatcher pointed out that tax payers' money equivalent to £200 per household had gone into British Leyland.

Better off on the dole From Mr D. Franklin

Sir - The National Institute says (February 21) that unemployment could be reduced by 1m and it would be useful to raise income tax. Although there are 2.4m more people unemployed than in 1971, the number of unfilled vacancies is higher...



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Indonesia's economy

From The Minister of Planning, Republic of Indonesia

Sir - I refer to two recent articles commenting on current economic developments in Indonesia. The impression is created in both - that of a country struggling to get by in the face of grave economic difficulties - presents an inaccurate picture of present-day economic conditions in Indonesia.

Contracting to expand

From The Director, Imperial War Museum

Sir - I was delighted to read William Facker's excellent review (March 4) of Ronald



Terry Byland on Wall Street

Municipal bonds face tax fears

A NOTABLE exception to the generally exuberant US credit markets over the past two months has been the municipal bond sector...

Alan Cane looks at the Cincinnati all-electronic securities system

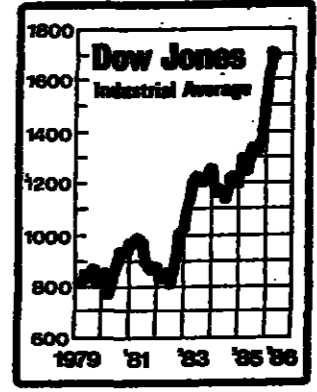
A model for world stock markets

ONE DAY last week the New York Stock Exchange dealt in some 154m shares; the Cincinnati Stock Exchange, based in Ohio, dealt in 252,000...

For the larger brokerage houses Mr Brown sees NSTS as an opportunity to offer "one stop shopping" to their institutional clients...

THE LEX COLUMN

Wall St floats on oil



To listen in to Wall Street these days is like eavesdropping on a bunch of Texas wildcatters who have just discovered an oilfield...

Excesses Up in Boston, where the sky never looks as blue as it does from Merrill Lynch's Manhattan headquarters...

Management claims victory in Murdoch newspaper dispute

IN MOST industrial disputes both sides combine finally to proclaim there are no winners and losers...

British Gas sell-off delayed

THE BRITISH Government has been forced to rearrange its timing for the flotation of the British Gas Corporation to avoid a potentially chaotic clash...

Companies bid for snack group

Continued from Page 1 leaving the final contract details for later. Teams of negotiators from the two potential US buyers flew into London yesterday to continue talks...

World Weather

Table with columns for location, temperature, and weather conditions. Includes locations like Algiers, London, New York, etc.

Lac told to give up gold mine

Continued from Page 1 Hemlo gold rush in the early 1980s when Corona, then a junior Vancouver-based resource venture...

Lac told to give up gold mine

The judge dismissed Lac's argument that the information it had used in negotiations with Mrs Williams had been published either by Corona or in mining industry newsletters...

Overheating

Over the hubbub of fast money jumping on to this particular bandwagon it is difficult to hear the still small voice of caution...

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SECTION III

FINANCIAL TIMES SURVEY

# Indonesia

The collapse of world oil prices represents the biggest challenge for the Indonesian Government since it came to power in the mid-sixties. President Suharto's astuteness in blending different interest groups harmoniously together will be tested to the limit.

## Major challenge ahead

INDONESIA has been through two periods when the expectations of its peoples were raised to a level which later proved unsustainable. The first was during the rising tide of nationalism following the declaration of independence in 1945 and the defeat of the Dutch colonial power.

The late President Sukarno tried to satisfy those first great expectations with a diet of makeshift economic development and personal charisma. A succession of rebellions and subversive movements, which largely arose out of his inability to deal with rising popular discontent and economic chaos led to an abortive coup attempt of 1965 which eventually swept him from power.

The second period when the country's vast and rapidly increasing population glimpsed the promised land — and to a limited extent arrived there — came after the first oil price rise of 1974. The country's oil wealth gave birth to an unprecedented economic boom from which enough people benefited to give President Suharto, Indonesia's second head of state, a sound basis for consolidating his position until it became impregnable.

Then the price of oil began to fall — at first slowly — but later as energy-saving measures in the industrialised world and oversupply took hold, with dizzy rapidity. Oil and natural gas earnings account for over 80 per cent of Indonesia's state budget revenues and 70 per cent of export earnings. For every dollar drop in oil prices, government receipts fall by more than US\$300m.

For Indonesia's population of 165m scattered over the

society in this fissiparous country.

This peculiar Javanese political alchemy involves subtly blending the country's key power groups — military, political, and religious — into a harmonious whole which serves national objectives. In reality, a relatively small group — the army — holds the levers of power, but patronage and compromise create the illusion of consensus.

President Suharto has also been astute enough to appoint a number of talented technocrats to his government, who have introduced sensible and prudent economic policies, ploughing Indonesia's oil income into key sectors such as agriculture. The development of Indonesia's fertiliser industry, for example, has played a major role in turning the country from the world's biggest importer of rice in 1980 to self-sufficiency, and even a small surplus for export.

But with the oil price hovering around \$13 a barrel Indonesia's economy is struggling, and there appears little relief in sight.

Indonesia had already left the ranks of the big spenders by 1983 when it abandoned projects worth US\$10bn. The slowdown has since deepened as President Suharto, a conservative at heart, has pursued what one of his ministers describes as a better, safe than sorry policy.

At the start of this year Indonesia cut its annual budget for the first time in 17 years. Over-



● PRESIDENT SUHARTO, above, has built his reputation as "Father of the Nation." Achievements include impressive strides forward in the area of agriculture, but economic planners in Jakarta (left) now warn of two tough years ahead as oil revenues decline

all spending was slashed by 7 per cent and development spending by 22 per cent. The previous budget had been based on an estimated oil price of around \$29 a barrel, and a daily oil production of 1.3m barrels. The actual output averaged around 1.18m and prices had fallen to around \$27 a barrel by the end of last year.

This year's budget was based on a price of \$25 a barrel but probably anticipated a further drop. However, within weeks the price had collapsed and, in early March, the government was preparing to announce yet another round of expenditure cuts.

Mr Ali Wardhana, Indonesia's top economic strategist said in early March that the country would push oil output to 1.5m barrels a day or possibly higher to counter the drop in prices. "We have a population of 160m and we have to feed them," he commented.

In his January budget speech President Suharto maintained that the economy was resilient. Buoyed by low inflation, strong agricultural production and "quite adequate" foreign exchange reserves, it would weather the storm and two decades of economic progress would not be reversed, he said.

There is some truth in this but also an element of wishful thinking. President Suharto has built his reputation as "father of the nation" on his record of economic development and he must now be concerned that a prolonged recession will begin to undermine his standing.

### Big contrast

Moreover, in contrast with the country's impressive agricultural record the performance of the industrial sector has been dismal. While it is true that Indonesia's foreign reserves provide the government with a comfortable cushion, and there is at least \$2bn in untouched loans, this situation could deteriorate.

Indonesia's debt-service ratio stands at 22 per cent and its total foreign debt at around \$27bn. While this is comfortable enough, Indonesia will be paying up to \$5bn in repayments this year and may have to make further borrowings if the balance of payments position deteriorates sharply with the further loss of oil revenues.

This sudden economic anaemia could not have come at a worse time for Indonesia or President Suharto. Although, at 64, he shows no signs of stepping down,

and remains strong enough physically to continue in power for as long as he wishes, the question of his eventual succession arises.

He will be 67 when his new term begins, comparatively old by Indonesian standards. Although sufficient consensus exists among the country's top power brokers to ensure a smooth succession, the process would be more assured if the country's political stability is underpinned by a healthy economy.

The laborious process of preparing for an eventual succession has, some argue, already begun, even though that event could be seven years away. Changes in policy and administration in the past two years, to tighten the way the country is run and reinforce the regime's control, suggest that President Suharto may already be thinking of his successor's problems.

Nobody knows who that will be, perhaps not even President Suharto, but he will almost certainly be Javanese general and Moslem.

The military has undergone a radical reorganisation under General Benny Murdani, the armed forces chief, while the state ideology, Pancasila, has been elevated virtually to a religion. Proclaiming belief in

five principles — one god, humanitarianism, national unity, democracy and social justice — Pancasila is chiefly aimed at blunting the threat of Islamic fundamentalism. More than 90 per cent of Indonesia's population is Moslem.

As one veteran western diplomat puts it: "Indonesia is basically stable under Suharto, but there are two wild cards he has to contend with. The first is the oil price, and that card has been dealt. The second is Islam."

Despite occasional rebellions by extremist Moslems, there are no signs of a mass movement against the government's refusal to subordinate the state to Islam, or against widespread corruption. The Javanese regard high office as a grace and its spoils as a natural prerogative.

But President Suharto is taking no chances. Golkar, the government party, has been reinforced under the leadership of Mr Sudharmono, the powerful state secretary. All civil servants, down to village level, are pressed to join Golkar in a blatant attempt at total identification between government and ruling party.

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# INDONESIA 2

# Economy

The magnitude of the recent fall in oil prices has deepened the furrowed brows of Jakarta's economic planners, as Kieran Cooke reports here.

## Two tough years ahead

FOR THREE YEARS Indonesia's economic planners have been preparing for a month like this. February. Ever since the 10 per cent fall in the price of crude oil, at the end of 1982, they have been expecting worse. Efforts have been expended to shore up the economic structure to withstand the shock.

Following the 1982 crude price fall, over US\$12bn in major development projects were rephased. Many, in fact, were put on ice permanently. A crash programme began to accelerate non-oil and gas exports and these have been making headway despite sagging markets for nearly all commodities. Efficiency and anti-corruption measures have been introduced, too, to cut down the bureaucratic factors which tended to increase costs and threaten competitiveness.

To reduce cash outflow and protect fledgling local producers, imports were severely reduced. Moreover, during the past three years the Government has lined up about \$3.2bn in as yet undrawn standby credits with foreign banks.

When Jakarta went to the market in early 1985 to increase credit lines, confident banks over-subscribed the issue, pushing it up from \$300m to \$400m despite the already high debt level. Last December, as the oil price crash drew ominously near, the country yet again made a successful foray into capital markets, raising \$300m in one debt issue and Yibn in another. The borrowings were published early January just as the Government announced a 7 per cent cut in the proposed fiscal 1986-87 budget.

These preparations were none too pessimistic. Most pundits saw the oil price dropping in March at the earliest, so the January-February crash was a surprise. The magnitude, with prices falling by nearly \$8 a barrel in a matter of weeks, was stunning. Worst case theories put the low at \$15 a barrel. Few local economists had any idea the bottom would be below \$14.

This has certainly deepened the furrowed brows of Jakarta's economic ministers, and they all expected a near two-year recovery but largely as a result of the ad-hoc protective measures taken since 1982, there is no panic. Foreign bankers and economists, commenting on the most recent debt issue, say they have doubts about the conservative management of the Indonesian economy will keep the country on a stable footing, despite the endless rounds of belittling.

Economic growth could be flat in 1986, following the estimated 1 per cent attained last year. In his January speech to parliament to present the next year's budget, President Suharto warned that GDP growth could not be expected next year, which would be characterised by further, unavoidable cutbacks in government spending. He stressed the need for a calm and realistic attitude toward the present difficulties. With diligence and discipline, President Suharto told the legislators, the country's resilience could be maintained.

The unprecedented 7 per cent cut that was announced for the year beginning April 1 was a direct result of the oil price collapse. Earnings from oil and natural gas had accounted for 65 per cent to 70 per cent of government income over the past several years, but in the new budget the portion was cut to 55 per cent.

**The budget**

By a longstanding law, the Indonesian budget must be balanced. This has been particularly difficult for the forthcoming year. Chief economic planner minister Dr Ali Wardhana, says the Government loses about \$300m for every \$1 fall in the barrel price of oil. A balanced budget was still possible when the oil price was projected to stabilise about \$19. Now Wardhana says there is the possibility of a budget revision after the oil market has settled down.

Foreign aid has, in the past years, allowed the Government a high level of expenditure on development. In the upcoming fiscal year development spending has been cut from 10.8 trillion roubles (US\$8.4bn) to Rp 9.3 trillion. Development aid has fallen, to protect levels of debt, now about \$27bn in mostly soft-term loans.

To make up for the economic losses resulting from spending cutbacks, the government has opened up determined two-pronged attack. Since early 1984 a massive review of archaic tax codes has been under way. Previously taxes were for the most part a matter of negotiation with often-corrupt tax officials. Those qualified to negotiate did their best to hide from collectors, and if assessed rarely reported even as much as half of their taxable income. Moreover, a significant portion of taxes paid never reached government coffers.

Now paying taxes is based on self-reporting guidelines, and the collector has no power to harass, or cheat, the taxpayer. Tax codes are simpler and encourage an openness of accounts. The result has been a significant widening of the tax base, the number of taxpayers nearly doubling in the first two years.

Efficiency is the catchword of the other angle of attack. Implementation of major projects, beset often in the past with waste and fraud, is being intensely scrutinised so as to speed up the undertakings and get more out of the development budget.

To build up non-oil exports—crucial for lessening the dependence on petro-dollars—other reforms have been undertaken, such as the already-visible effect of making Indonesian goods more competitive internationally. The well-known presidential instruction IV of 1985, or Inpres IV, dismantled half the notorious customs apparatus. A full 8,000 customs officials, mostly based at the thoroughly corrupt main Indonesian port, Tanjung Priok in Jakarta, were given indefinite furloughs. Their role in slowing down trade, extorting extreme payments from both importers and exporters, was virtually eliminated. Many of the handling procedures which stood as impediments to smooth trade in Priok and other main ports have been eliminated.

The Swiss inspection company SGS has been given the contract to assess trade merchandise for quantity and quality so that accurate duty payments will be made. SGS directs duty payments directly into the treasury, with the result that tax collections in the trade area have soared. Yet costs for many traders have dropped. Exporters say shipping, clearing and forwarding costs added on to their goods' value have fallen by at least 50 per cent, and the goods no longer get held up for weeks on end in the port.

In reinforced the commodities takeoff of the past three years. In 1984, non-oil exports, mostly commodities and textiles, grew 17 per cent. In 1985, a reflection of softened competition in the global market, Exports of tea, rubber, non-ferrous metals, prawns, electri-

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## Banks hit by shrinking assets

FOURTEEN MONTHS have passed since the governor of the central bank, Bank Indonesia, announced measures to counter chronic rupiah shortages in the interbank market brought on by a series of deregulation moves begun in 1983.

Just a few months before the announcement, overnight rates for interbank money were constantly over 30 per cent. At one point, in September 1984, they rocketed to 90 per cent. The rupiah shortage was so severe enough that BI had to open special liquidity credit facilities which the banks quickly leapt to, borrowing Rp 300bn (\$300m) in short-term money.

The new money market instruments, announced by the BI governor, Arifin Siregar in January 1985 were extremely successful in creating a more fluid market. Interest rates for short-term deposits fell immediately, and since then have sunk to below 20 per cent. By allowing banks to endorse and discount corporate clients' commercial paper and bills of exchange, and to issue notes of their own, BI successfully averted a crisis that had already claimed one bank as a casualty and left several others on the brink of disaster.

The money market instruments, and controls instituted on individual banks' interbank borrowing also left enough leeway in the market that banks could easily supplement the Rp 300bn in special credits allotted them during the previous September's credit squeeze. An expected shakeout in the industry never happened.

In a regulatory sense, the banking system in Indonesia has never been healthier. The 1984 deregulation allowed banks to freely compete for rupiah deposits by setting their own deposit rates, and the subsequent opening of these instruments solved the temporary shortage brought on by heavy competition for the rupiah. BI has been able to stabilise interest rates, keeping them only slightly high to prevent a flow of funds offshore into interest-bearing dollar accounts.

This has been quite a lot of activity for Indonesia, where the Government's finance czar are perpetually preoccupied with the country's external accounts. The once quick-fix attitude has edged closer toward developing longer term reforms.

Since this recent round, though, BI and the Finance Ministry are content to leave things be for a while and turn to the balance of payments.

The banks, then, are not entirely happy. The plight of the general economy, inseparably tied to the fortunes of Indonesian crude oil on the international market, has been in decline over the past three years.

The situation worsened severely with the steep plunge the oil price took this January. A large amount of private business depends either on the slumping oil sector, or contracts from the strongly centralised Government.

With oil income dropping, many banks have a host of bad loans on their books, and have spent the past two years trying to restructure and re-evaluate their portfolios. For most, it translates into shrinking assets, if not in rupiah terms then in real dollar terms.

**Across the board**

Difficulties traverse the entire sector: the state banks, with 80 per cent of the business; the foreign banks, with only 5 per cent; and the national private banks. The problems in the state banks, heavily into commodity development projects when most commodity prices are dropping, has meant less central bank support is available for the others.

BI has, by all accounts, done an admirable job managing a difficult situation during the deregulation period. One bank, Bank Perkembangan Asia, did fail, but BI took over management before any run on the bank's assets occurred. In January, after nearly two years of sorting out BPA's finances, BI handed it over to a group headed by the former senior government economist, Sumitro Djodjohadikusumo, with the large Jakarta-based Astra group as partners.

BI was also forced to take over Bank Pacific, the smallest of the locally-owned foreign exchange banks, last year. Again, BI has attempted to sort out the bank's books and is expected to sell its assets to private investors in the near future.

In the difficult economic environment, the private banks are seeing the disadvantages of the country's free currency exchange system. Depositors are constantly worried about a possible devaluation, a growing prospect as government oil income drops. If movement into offshore dollars grows too rapidly, the market could lose liquidity, and weaker banks would find it most difficult to source rupiah.

Senior leaders in the Government, including Mr Siregar, Finance Minister Radikus Prawiro and President Suharto himself, have most recently repeatedly stated there would be no devaluation in the near future.

These assurances have hardly lent the market confidence in the rupiah over the medium term. Banks still register about 90 per cent of their deposits in the short-term, under six months. That there is now a great deal of liquidity keeps interest rates down. In the weak economy, quality borrowers are few and far between, too.

But while times are quiet, banks are mulling ways to strengthen their deposits. The talk is promising; it leans towards a loosening of the state banks' hold on deposits they control, those of state-owned corporations, insurance, and pension funds.

If the state banks would let out a small percentage of this long-term money to the private institutions, it is argued, there would be far more stability in both sectors. The private banks could operate with increasing efficiency, and have more funds to support the private sector.

The Ministry of Finance are slowly working out a number of minor changes to liberalise the atmosphere, and simultaneously strengthen the system top to bottom. Last year the ten foreign bank branches in Indonesia were allowed a modicum of access to the market outside Jakarta, up to now not available to them except through their leasing subsidiaries.

## The biggest test so far

**CONTINUED FROM PAGE 1**

The army, the real power in the land, has been instructed to act as Golkar's backbone while persistent efforts are made to negotiate Javanese-style compromises with the country's powerful Islamic parties and organisations.

Dissent is harshly dealt with, as the 10-year sentence on retired general and diplomat H. R. Dharsono at the end of last year starkly demonstrated. Mr Dharsono was accused, with others, of subversion because he questioned government explanations of what happened when troops dispersed demonstrators in the poor North Jakarta dock area known as Tanjung Priok in September, 1984, killing more than 30 people.

Among those who signed the statement challenging the government were 16 members of so-called petition 50, the country's most vocal dissident organisation, founded in 1980, which consists of retired military officers and former civil servants. The group is a constant thorn in the government side, even questioning the Army's claim to play a dominant political role. In a country where the military remains part in the struggle for independence as a passport to power this is nothing short of heresy.

Furiously, Indonesia has no external threats to worry about. There are persistent mutterings among some generals about the long-term military superiority. Few people in Jakarta seriously believe, that Peking will one day invade Indonesia.

The turmoil in the Philippines was, and remains, a source of concern but, again, represents no threat to Indonesia, where the Communists have been reduced to virtual impotence since the purge which followed the 1965 coup attempt.

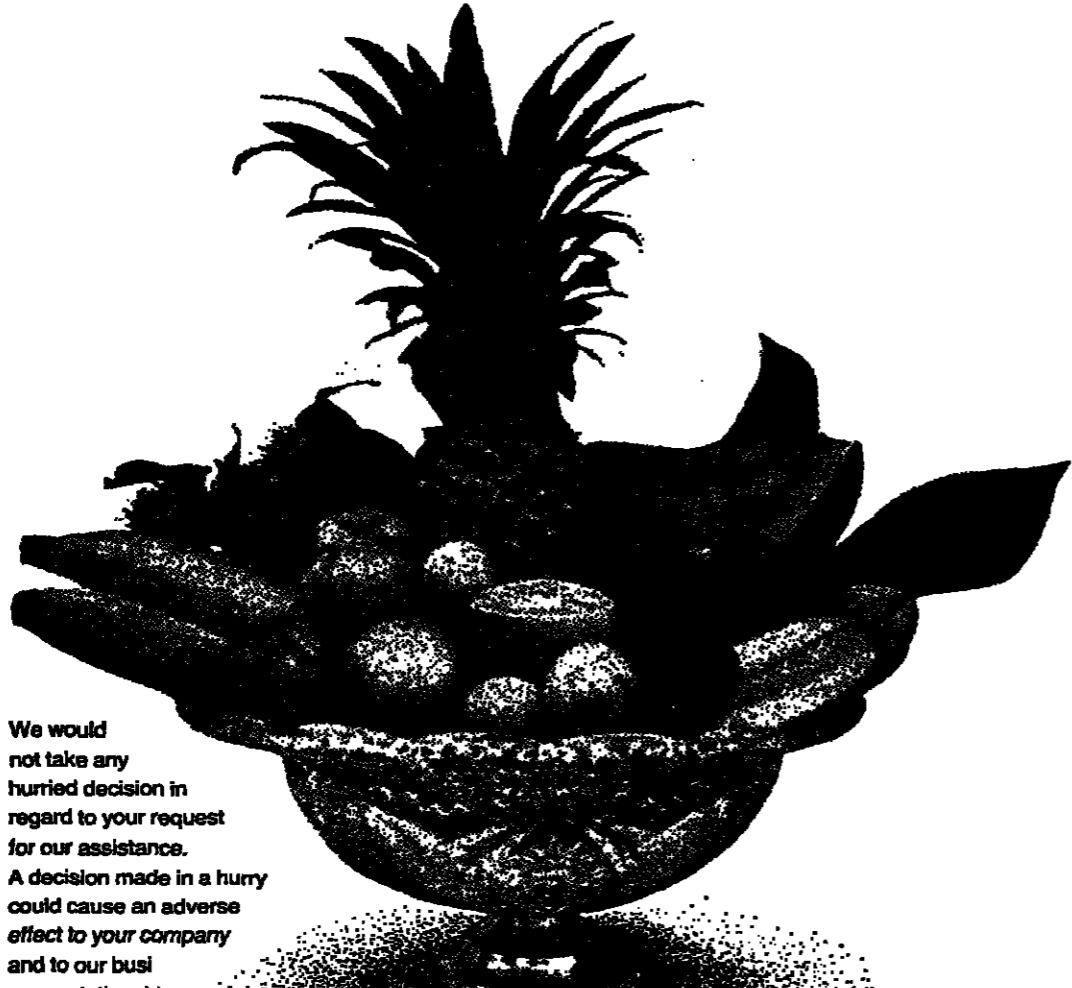
President Ronald Reagan's forthcoming visit to Jakarta and the decision by the US to sell advanced F-16 fighters to Indonesia even though it cannot afford them, affirms Washington's tacit recognition of President Suharto's importance in south-east Asia.

Whether Indonesia can move towards the 1980s with as much assurance as it has shown over the past decade remains to be seen. President Suharto has carved an unassailable position for himself through a mixture of good sense, guts and ruthlessness. The institutions of government and the army are under firm and increasingly competent control. There are no visible threats to stability. Indonesia does not appear to have a Khmerini either at home or in exile.

Indonesia, however, a vast and complicated country difficult to hold together at the best of times. If the oil price drops even further, and fails to recover, the country's resilience will be tested to the limit.

Ian Williams

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PROFILE DR ALI WARDHANA

Nation's leading financial guru



Dr Wardhana: unemployment is the major challenge for Indonesia

TRYING to get an appointment with Dr Ali Wardhana, Indonesia's leading financial guru, is no easy task. Actually finding him in his office is even more problematic.

Dr Wardhana sits at three desks literally encased by piles upon piles of economic documents and files. From this paper-covered bunker he emerges, a man of considerable charm and affability.

On one side of the room a sign pleads: "God, please bless this man." On the other is one saying: "A neat desk is the sign of a sick mind."

Dr Wardhana hardly has the bearing of a man in charge of one of the world's more intricate economies. Instead, he fulfils the Javanese ethos of always seeming at ease, even in times of acute crisis.

Dr Wardhana has been one of the main thinkers behind Indonesia's economic planning for nearly 20 years. One of the so-called "Berkeley mafia" who have directed economic policy and development under President Suharto, Dr Wardhana took his degrees (MA and PhD) at the University of California in the early sixties before returning to teach at the University of Indonesia.

He still has the relaxed air of academia about him. "I regard my job as moonlighting for the Government," he says with a laugh. "I am first and foremost a teacher and still try to give as many classes as possible."

Dr Wardhana served as Minister of Finance throughout the late '60s and '70s. Inflation back in 1965 was more than 600 per cent. "Those days were chaos, but it was also fun. I had to do practically all the calculations myself. We had no financial infrastructure, nothing."

Dr Wardhana was given his present position as co-ordinating Minister for Economic, Financial and Industrial Affairs in a Cabinet shake-up in mid-1985. Since that time, he has gained a reputation as a conservative approach: he objects to profes-

Dr Wardhana is a prudent planner who is, however, not frightened to implement sweeping and sometimes unpopular decisions. He was behind much of the planning for the radical reorganisation of the Customs Service last year, dismissing up to half the officials in what had become a notoriously corrupt department.

"We have to take such measures. It is painful, but it is the only way we can survive," he says. Such was Dr Wardhana's standing both at home and overseas that when he was hospitalised last year, bankers started to worry. The Minister says Indonesia's financial management is far more mature now and there are others who are just as capable to do his job. Also he says that, at 57, he is in good health. He plays golf as keenly as ever—his office is lined with trophies—and has no intention of retiring.

'My hobby'

"My work is my hobby," he says. "Other hobbies include farming durian—the legendary 'king of Asian fruits'." There is concern about what will happen when Dr Wardhana and his colleagues step down from office. The Indonesian Government has shown remarkably little mobility over the last 18 years: it has also tended to foster an elite of men such as Dr Wardhana who overshadow any potential successors.

Dr Wardhana is from Solo, the heartland of Java where a number of the members of the President Suharto's entourage were born. But Dr Wardhana is an internationalist—in his approach: he objects to profes-

DELVING INTO the intricacies of Indonesian Government statistics can be an often confusing business. Figures on investment are, for instance, produced by various Government departments and ministries and they sometimes differ substantially. But, in general, all the statistics agree on one factor at the moment: foreign investment in Indonesia has been falling for the past three years and no upturn is in sight—a deeply worrying trend for the firm development-oriented Government of President Suharto.

During the current Five-Year Plan—called Repelita—the Government has set an annual investment target of Rp 13.3 trillion (US\$1.8bn) from both domestic and foreign sources. But according to latest figures available, total investments last year were less than half the Government target at \$4.20bn.

In 1984 the figure was only \$2.93bn. Within that total, foreign investment—excluding that in oil and gas—showed a particularly dramatic downturn from \$2.5bn in 1983 to \$1.07bn in 1984 and \$859m last year.

Moreover, these figures refer

to foreign investments approved: investments might not be implemented in all cases.

Also, more than 20 per cent of the 1985 foreign investment figure is taken up with project expansion and does not as such represent new investment. The vagaries of the world economy and the increasing tendency of countries such as Japan to place their overseas investments in "safer" areas such as North America and Europe, rather than in the developing nations, has been one reason for the decline.

While Japan is still Indonesia's largest investor, the oil sector apart, having put nearly \$5bn into the country since 1967, its investments have been steadily declining in recent years. Last year Japan agreed to invest more than \$520m in new projects in Indonesia. However, few of these projects show any sign of getting off the ground at the present time.

A general slowdown in the Indonesian economy due to falling revenues from vital oil gas exports has also caused an investment slump. But many foreign companies point to Indonesia's unattractiveness in com-

parison to many other countries in the region. Despite a wholesale reorganisation of the notoriously corrupt Customs Service last year and low labour costs, Indonesia is still not an ideal exporting base: the prevalence of a "high cost" economy, befuddled by licensees and middlemen, deters most export orientated industries; foreign investors are also prohibited from many areas: almost all downstream projects are forbidden to foreign investment.

Instead, the Government emphasises investment in usually far more costly projects upstream producing capital goods and materials for downstream industries. Such projects promise little return from capital in the short or medium-term.

Further obstacles to foreign investments are a shortage of reliable local partners and rulings that require foreign companies to sell a majority of equity locally, within 10 years—or float shares on the somewhat Jakarta stock exchange.

Government efforts to persuade foreign investors to put money into agro-business and crop development have met with only limited success.

The appointment of Mr Giandjar Kartasasmita early last year as head of the State Investment Board was aimed at shaking up the overly bureaucratic process of investment approvals.

Mr Giandjar—at 45, the youngest member of the Indonesia Cabinet—has made many changes and embarked on a

number of highly publicised investment tours abroad. But Mr Giandjar, who is also Minister of Small-scale Industries, is still looked upon as being overly protectionist. His abrupt style and sometimes cavalier approach—last year he kept an audience of several hundred foreign businessmen waiting for nearly two hours for his first major policy speech—have not gone down well in some circles.

Mr Giandjar dismisses the idea that he is a "nationalistic zealot" and says he only wants to achieve greater opportunities for domestic products.

He also points out that the investment scene is not all gloom: though total investments were down last year the number of projects approved doubled to 50. Indonesia is also diversifying its sources of foreign investment: last year, India became the single largest investor in the country with a \$190m project for manufacturing polypropylene to be undertaken by the Chemtex engineering group. India has also made large investments in the Indonesian cement industry.

K. C.

Foreign investment in decline

INDONESIAN INVESTMENT

Table with 5 columns: (Figures in \$m), 1982, 1983, 1984, 1985. Rows: Total domestic, Total foreign, Total.

Stock market: a style all its own

THE INERTIA of Jakarta's diminutive stock exchange disappoints the type of speculators who dominate the frenetic trading floors of Hong Kong or New York. Trading averages less than 5,000 shares a day, on occasion none change hands during a session.

Yet the bearish players, those patient to sit and wait, or even close their eyes optimistically waiting for a market boom, see there is money to be made. Meanwhile, they are content with their high dividends. The Indonesian Stock Exchange has its own distinct style, and purpose. An insight into government policies, monetary and political, is crucial to understand this capital market.

Primarily, the Government has an intense fear of financial instability. The massive government sector, dominated by large development projects and big aid and support programmes to the rural population requires equally big—and reliable—funding.

Steady funding, in turn, is difficult to achieve because of the country's free foreign exchange system. Depositors are especially nimble at moving

into US dollars at the first hint of a devaluation or a breakdown in public security. As a result the central bank, Bank Indonesia, maintains high interest rates to keep deposits in the banks, and the Government orients private and public rupiah as best it can into the state banks.

To compete, private banks offer even higher term-deposit interest rates. Some 85 per cent of deposits are for terms under six months, for this length of time 14 to 17 per cent was being offered in February, down from a minimum of 18 per cent late last year.

The share market suffers as the Government does not want state held rupiah holdings, such as pension funds, supporting the 24 private listings on the market when it could be backing state projects. The state also taxes dividends on shares, while deposit interest is tax free.

Thirdly, through the intervention of the government-owned investment trust P. T. Danareksa, share price movements are prevented from being sharp and drastic, which is what more bullish punters want.

The big year for new listings was 1983 on the now 9-year-old exchange. Since then only one other company has gone public. The biggest hope of the market, a share issue by cement giant Indocement, flagship of the country's largest business group, was aborted and the company instead sold 35 per cent equity to the state.

The chips are stacked against a company going public, but there are some benefits, as the 24 on the exchange have noted. More than two-thirds are well-known multinationals. Richardson Vicks, BAT, Squibb, Unilever, and Goodyear chose equity issues as an alternative to a government requirement for foreign joint ventures to divest a minimum of 60 per cent control over 10 years.

Many on the exchange preferred to maintain control over company secrets and product quality by issuing publicly traded shares, rather than selling half the company outright to local Indonesians.

The reasons for a local company taking the plunge are less concrete, which explains why only a handful have done so. It is a method of building the company image as a professionally-run organisation set on an

even keel. More importantly, it takes pressure off companies under the control of Indonesian Chinese, who are constantly in fear of racially-oriented attacks.

The strength of those of Chinese descent in the economy is inordinately large, compared with their relatively small number. Many have also seen their fortunes grow tied to certain members of the ruling elite. This is constantly a source of tension, occasionally breaking into political and physical attacks.

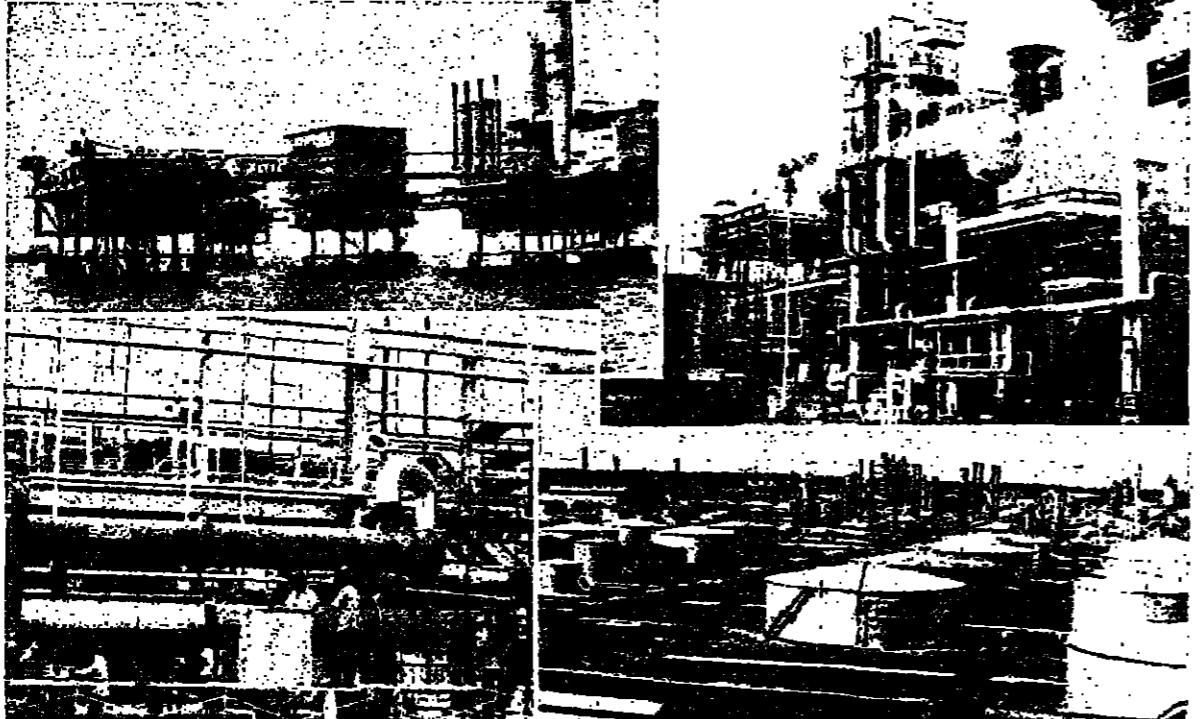
The Government has urged the Chinese business groups to go public to lessen the potential for racially-based troubles. But even those willing to do so see further hurdles in the economic costs and disclosure requirements.

For three years the economy has been on a downturn, partially due to the fall in income from oil exports. Listed companies find it difficult to improve their stock's performance with their domestic market in slump. Business expansion, a potential source for new

share-listing alternative. In spite of controls on block shareholding and trading price fluctuations, there is a tremendous interest in the stock market's possibilities. Mr Barli Halim, its chief, is as bullish as possible, considering the regulatory atmosphere. It was obvious when the Indocement issue was planned that it would sell very well.

K. C.

Making sure you have no problems



is no problem to us

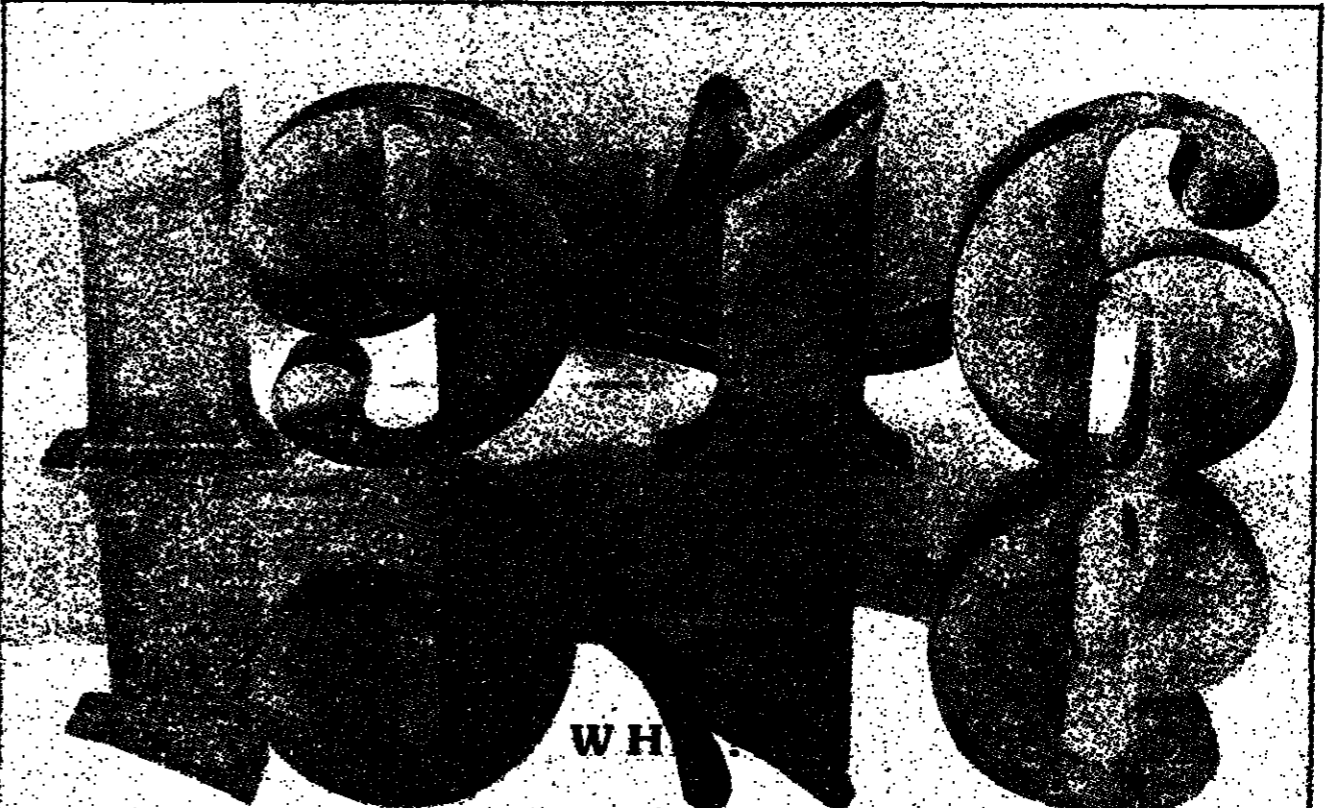
Going smoothly, doesn't always mean things will stay that way. You may have structural problems you can't see or error in design and fabrication. Even if you don't, it's better to let us make sure. Evaluation on most industrial accidents show that the main reason for accidents are:
- Unclear and unjustified inspection guidelines and procedures.
- Unproper applications of inspection procedures.
- Design errors.
- Human errors.

It's about time to start thinking and take preventative actions against major accidents and other industrial hazards by carrying out safety inspections.

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Because it serves to distinguish an important year in the life of national banking in Indonesia: To be exact, it marked the birth of the first Indonesian State-owned Bank, on July 5, 1946, shortly after the Independence of Indonesia.
As a bank which was established right after the birth of this new country, it knows very well the intricacies of the Indonesian banking system in the growth of which it has lent a hand from the very beginning.
At the time it was founded, BNI 1946 had only five offices, and now it maintains 250 branch offices throughout the country.
Its network of correspondents is worldwide. It enjoys close relationship with international banks, and is represented in a number of financial centres, such as Hong Kong, Singapore, Tokyo, New York, Bahrain and London.
It offers full fledged banking services with increasing capabilities, improved skills and modern means.
Indeed, all these are made possible by the sound and strong foundation laid down since July 5, 1946. It is a fact that BNI 1946 was founded on the basis of experience and trust.
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INDONESIA 4

The nation enjoys political stability, but the intriguing question is who will eventually succeed President Suharto?

Power rests in the hands of the few



Indonesia's President Suharto—"the Smiling General"—centre, with Mrs Suharto, welcoming the Chinese Foreign Minister, Wu Xueqian, right, at a reception in Jakarta. Mr Suharto and his wife—a person of considerable influence in many sectors of national life—are surrounded by no more than a dozen trusted advisors.

making the organisation a truly grass roots movement. At the latest count it had 16,500,000 members, making it one of the largest political organisations in the world. Almost all Indonesia's 5m-strong bureaucracy are Golkar members. Advancement in the public and private sector is often dependent on party membership. Government contracts are more likely to be given to companies that make substantial contributions to the party machine. The two other parties, the Muslim Development Unity Party (PPP) and the Indonesian Democratic Party (PDI) have watched their influence decline as they have been outmanoeuvred and rocked by internal strife. At the last election in 1982, Golkar won 65 per cent of the vote. It has already said it hopes to win nearly 80 per cent of the vote at next year's 'Feast of Democracy' as general elections are referred to by the local press. Political control has also been brought about by a series of legislative moves. Legislation has been pushed through Parliament, obliging all organisations, from political parties to basketball teams, to adopt the state doctrine of Pancasila as their sole ideology. Pancasila—which emphasises belief in God, humanitarianism, national unity, democracy and social justice—is seen by the Government as a vital means of preserving national unity. Critics accuse the government of using the vague tenets of Pancasila to impose a one-party state. Muslim groups, in particular, have been hurt by the move: they can no longer legally use Islam as a political weapon. The PPP has even been forced to change its party symbol from the holy Ka'bah in Mecca to a more neutral and non-religious star. There have been periodic outbreaks of opposition to the Suharto Government. But these moves have tended to be more reflections of unrest and displeasure among certain members of the elite than any real popular movement. Recent events in the Philippines have caused some to draw parallels. Mr Suharto has been in power nearly as long as former President Marcos. His Government has also been tarnished by allegations of corruption. There have been two waves of vote-rigging in past elections. But there are important differences. 'There is not the widespread political consciousness

The political system

Executive power rests with the President, who is elected to a five-year term by the People's Consultative Assembly, which meets to decide general policy and for Presidential elections.

Half its 830 members are appointed, representing regional assemblies, political parties and other groups.

The House of Representatives contributes the other 460 members of the assembly with 100 directly elected members and 350 elected by citizens who are married or over age 17. The cabinet is appointed by and responsible to the President.

Date of last parliamentary election: May 1982. Majority party: Golkar (242 of the elected members of the House of Representatives). Date of last Presidential election: 10 March 1982 (President Suharto elected for his fourth term).

—the birth place of the Suhartos. Actual implementation of power and control is carried out through the military, the bureaucracy and a plethora of Government-associated organisations. The military, with Mr Suharto as its Supreme Commander, remains the single most important and influential group in Indonesian political life.

Through its *dwi fungsi* or dual-function role, it holds many important administrative and business positions. Almost all governors of the country's 27 provinces are military or senior positions in both state and private corporations are often held by the military. The armed forces have considerable clout in parliament where they represent about 25 per cent of membership. And while they are technically above party politics, they are encouraged to support the ruling Golkar Party.

Golkar was formed in the early 1970s as Mr Suharto's political machine. At the same time, several other parties, including the major Islamic organisations, were forced to unite into two groups. This had the effect of neutralising a great deal of their power and support. Two years ago, Golkar embarked on a mass registration drive, aimed, it said, at

Stage-managed

Politics is carefully stage-managed. Successive elections are treated more as pre-Government displays than any test of popular will. Meanwhile, traditional concepts of *Musyawarah* and *Mufakat* (consultation and consensus) have been largely abandoned in favour of a strictly hierarchical system with the President at the apex, the centre of enormous power and influence. Power and the ability to make decisions on all key issues rests in very few hands. Mr Suharto and his wife—a person of considerable influence in many sectors of Indonesian life—are surrounded by no more than a dozen trusted advisors. Along with the president they supervise appointments, often through the Government, of officials, and preside over an extensive patronage system. The 'inner circle' are almost all military figures who have proved their loyalty to the president over the years. Many have their roots in central Java

When talking of the future role of the Capital Market in helping to carry out the mobilisation of domestic sources of finance, I cannot divest myself from the aim and goal of the Government of Indonesia in redeveloping the Stock Market.

THE ROLE OF DANAREKSA

Indonesia's State Investment Trust Company by J.A. Seroh, President Director, P.T. Danareksa

When talking of the future role of the Capital Market in helping to carry out the mobilisation of domestic sources of finance, I cannot divest myself from the aim and goal of the Government of Indonesia in redeveloping the Stock Market. It is with this in view that I would like to quote an excerpt from the address by President Soeharto when officially declaring the reactivation of the Capital Market in Indonesia on August 10th, 1977 which is as follows: 'With the Capital Market reactivated companies have the opportunity to secure additional capital directly channelled to new areas in need of capital. This means opening up opportunities for further growth of business and new industries. So it is just and right when the general public is given an opportunity to own, not to buy, but to invest in companies, which is of a destructive nature, but in ways acceptable to everyone. This could be among other things achieved through the way we are progressing in our efforts to develop the economy in the direction as stipulated and required by article 33 of the Constitution of 1962 of the Republic of Indonesia. I invite entrepreneurs to develop the capital market together with the Government.'

INVESTMENT TRUST

Danareksa is creating a separate market in back-to-back certificates and mutual funds shares which is spread throughout the archipelago. For this purpose Danareksa is given priority to buy at least 50% of the shares offered by companies in the capital market although there is no obligation on Danareksa's part to take the shares offered in total or in part. It should be noted though that decision to take a lower percentage of the shares offered does not automatically imply that a purchase in excess of the above mentioned percentage be misinterpreted. Danareksa's role as underwriter is that of an investor. There is no desire to act as a big brother nor is there need to offer a seat on the Board of Directors. However, there is a responsibility to look after the back-to-back certificate holders and mutual fund investments. Companies should be aware that Danareksa's involvement is an important one and therefore should stay in close contact during the whole period an issue or offer is being discussed. Up to January 1980 Danareksa has issued certificates and mutual funds to the nominal value of Rp 127.3 billion. A feature of back-to-back certificates is that they are in effect, only for one type of share, their price follows that of their original shares at the Stock Exchange; Danareksa is ready to buy them back at any time. We do not only guarantee to buy back mutual fund certificates at any time, but we also guarantee a minimum dividend equal to the Time Deposit rate for the year. In 1981 when Time Deposit Rate was 12%, we paid 10%.

NON-BANK FINANCIAL INSTITUTION

The Minister of Finance has appointed Danareksa as a non-bank financial institution. This allows us to be active in the money market as well. Danareksa is also acting as an underwriter in public offerings of 4 hectares of land, on which besides the 2-storey building, a 22-storey building is being started. We hope that interest from overseas will stimulate domestic investors and activate the secondary market.

BROKER/STABILIZER

As a broker, Danareksa is assigned to see to it that the share prices on the Exchange do not fluctuate too violently. If the price falls below our evaluation (real price), then we are expected to buy at a higher price. On the other hand, if someone speculates by selling at a very high price, then we sell part of our stock at a lower price. In this government, given lectures, made speeches in many regions hosted by the local government, universities, Chambers of Commerce and Industry and even in all the Ministries in Jakarta. Special seminars for agents as well as workshops, panel discussions and the like are being held consistently in order to broaden their ability in marketing certificates, consistent with the instruction of the Minister of Finance.

UNDERWRITER

Danareksa also acts as underwriter, adviser and issuing house to the Public Issue. Some very large companies appoint two or more lead underwriters who would jointly act as advisers in public offerings and marketing the issue. P. T. Danareksa, as the National Investment Trust has acted lead underwriter in every issue because it has always been a substantial portion of the Indonesian capital, many companies which have gone public show less profit. Probably because of this, the Government has issued a regulation where the price of shares could drop below its nominal value and Danareksa is thus released from its

The high cost of corruption

THERE ARE, of course, no statistics which show the entire picture of corruption in Indonesia, but the Government does admit that it has become worse, with more than 2,000 people found guilty of various corrupt practices in the 1983-85 period, an increase of more than 400 per cent over the previous two years. Such figures are, however, largely meaningless, merely the tip of the proverbial iceberg, but corruption has already done considerable damage to the economy and it continues to threaten the stability of the Government of President Suharto. Apologists can say with considerable justification, that Indonesia is by no means the only player in the corrupt world league. Many other countries, both rich and poor, suffer from similar, if perhaps not so widespread, malfeasances. Corruption is often an adjunct to a market place, bargaining orientated economies like Indonesia's where the price of everything, from a bag of oranges to a death certificate, is open to negotiation. The industrialised countries, which contribute enormous amounts of funds to fuel Indonesia's development efforts—the Intergovernmental Group on Indonesia (IGGI) pledged US\$2.4bn in aid last year, has been accused of adopting double standards. No IGGI funds, say the critics, should be used for corrupt purposes. Corruption should be condemned as much in Indonesia as it was in the Philippines under the Marcos regime. The critics say that such institutions as the World Bank—Indonesia ranks number three in World Bank-related funding—should be more scrupulous about how their funds are spent. One of the least well-kept secrets of Indonesian life is that a large portion of those funds are misappropriated. The present vice-president and former chairman of the National Audit Board, General Umar Wiradikusumah, once estimated that waste and corruption accounted for 30 to 40 per cent of the state budget. The domestic economy has subsidised corruption, driving up prices and making most Indonesian goods uncompetitive overseas. Examples At a minor level, corruption is not difficult to find: the airport immigration officer who asks for a few dollars to renew a troublesome visa; the customs man who waves through blatantly taxable packages; the telephone engineer who quietly insists on payment of US\$2,000 for a phone connection that is officially priced at US\$200. A whole legion of so called expediting agents, many of them employed by foreign companies, grease the cumbersome bureaucracy for import and export visas, work permits or even appointments with officials. Low salaries are one reason for official soliciting, many of Indonesia's more than three million bureaucrats earn less than US\$30 per month. But the lines between what might be called honest and dishonest graft are not easy to find. At the higher level, a well-trenched and widely-used system of patronage nepotism exists side by side with corruption. From the start of his time in office, President Suharto has rewarded those loyal to him with lucrative business licences, directorships and other official positions. Businessman Mr Liem Sioe Liong or the head of one of the country's biggest timber concerns, Mr Bob Hasan, have usually had close links with the President in the past. The military, through its 'dwi fungsi' or dual role in society, is engaged in a wide range of enterprises well outside barracks or the parade ground. Retiring generals might be given a coal mine or timber concession. As General Benny Murdani, the armed forces chief, said to a visiting academic: 'normally when people retire (from the army) they come to us and see what they can get in the way of business and normally people like this get first priority on government contracts and tenders. They can make US\$1m to \$2m on commissions and that sort of thing and put it in the bank and sit back for life...'. The business dealings of the President's own family are a subject of endless speculation. Family interests range from LNG carriers to air charters, from oil support businesses to a football lottery. Although often a central topic of business discussions in Indonesia, any public mention of such activities is likely to be viewed as lese majeste. In the early 70s and people took to the streets to protest about the growing incidence of graft. A commission appointed by the President to investigate corruption reported that 'a purging effort (on corruption) must be commenced from the top.' Mr Suharto was at first complimentary, later he decided that those who attacked corruption at higher levels were in fact out to topple that state. 'I will smash them, whoever they are,' the President said. General Natunon, once senior to Mr Suharto and a close colleague during the early days of the New Order Government, has alleged that corruption is increasing and has attacked what he sees as a growing misuse of official power. As a result, he has been virtually ostracised from political and social life. Recently there have been calls for more open government and in particular more information on how various state run companies are run. With the exception of Garuda, the state airline, no public company issues regular and comprehensive accounts; there is no clear picture of the financial health of many of the country's most vital institutions and no proper monitoring of funds. Some people in government are trying to change all this. The so-called technocrats—have had some success in pushing through reforms. Last year almost the entire customs service was dismantled in order to weed out corrupt officials. The move, criticised by some radical and even un-Indonesian, has been a boon to exporters and importers alike. Kieran Cooke

# Islam emerges as growing focus

THE PLACE of Islam in Indonesian society has never been easy to understand, for all its 700-year presence. Outside its fundamentalist strongholds in northern Sumatra and Sulawesi, it has been practised mostly as a gentle, unassertive, syncretistic faith, somewhat removed from the doctrinal rigours associated with Saudi Arabia and, now, Iran.

Yet over 85 per cent of Indonesia's 185 million people profess the faith of Islam, which makes Indonesian Muslims the most numerous on earth. More to the point, there is little doubt that the country is currently undergoing something of an Islamic revival.

The questions, therefore, are what sort of revival, who is directing it, and what are its implications for a country whose official doctrine, Pancasila, merely acknowledges Islam as one of a number of acceptable religions?

Some historical perspective is needed. Every regime in Indonesia, from the Dutch colonialists to the present day, has recognised the latent strength of Islam, sought to contain or neutralise it as a political force. The Dutch tried to domesticate it by creating new institutions, but ignored the "pesantren," the religious schools, which became, naturally, anti-Dutch. Both Presidents Sukarno and Suharto have tried to assign Islam to distinct, but minority, places in the political composition. President Suharto, in effect, amalgamated the Islamic political parties in the 1970s to increase his control over them. In most Indonesian elections over the past 30 years, the Islamic party vote, to the extent that it reflected anything, has held steady at about 30 per cent of the total.

In the past two years, sporadic violence, apparently connected to Islam, has visited Indonesia. The serious Tanjung Priok riots in the port of Jakarta in 1984 certainly started in a mosque, though whether provoked by the police or an ulama (preacher) is in dispute; the bombings last year of the great Buddhist monuments at Borobudur were ascribed to Islamic extremists, though proof is still lacking; some Iranian diplomats have been expelled for proselytising the word of the Ayatollah Khomeini; too many

there have been a number of "treason" trials involving Indonesian Muslims.

The conviction of former General Dharsono once head of ASEAN last year was widely seen as a warning to the military from the Government not to associate with Islamic political groups, especially those of a radical nature.

Yet there is little doubt that the most significant political development concerning Islam in recent years took place in late 1984, when the largest Islamic organisation, the Nahdlatul Ulama, withdrew from formal politics.

Founded in 1926 at Dutch instigation, the NU is a conservative, but far from radical, social and educational organisation, drawing its main strength from the Javanese countryside. It boasts anything between 15-30 million members and as a political party probably accounted for a solid 20 per cent of the vote in all Indonesia's post-independence elections.

the issues of state in which Islam is interested. The policy now is to deploy thousands of NU community workers throughout the country, concentrating both on Islamic values and on practical issues, affecting the lives of the average Indonesian, such as education, land rights, legal services and so on.

Abdurrahman Wahid declares no vision of an Islamic state, either in the Indonesian context or along Saudi, Iranian or even modified Malaysian lines (indeed, he is critical of the policies of the current Malaysian government in this respect). He does not shy away from being described as an accommodationist and he preaches the doctrines of non-violence and inter-religious tolerance without qualification.

Others agree that Islam in Indonesia is experiencing a marked revival, is no longer the preserve of the old, and that the NU may have positioned itself better than its radical Muslim rivals to reap the benefit.

Mr Slamet Bratanata, a former minister and now a prominent member of the informal association of government critics known as the "group of fifty," argues that, especially for the young, Islam is filling a social void left vacant, he charges, by the regime. The mosque is becoming an increasingly important focus of social and recreational, as well as religious, activities; the merit fact that it is "fashionable, respectable and integrated" will, he suggests, make it less fertile ground for Muslim extremists, even though "fanatical Islam" will always exist, even in Indonesia.

Mr Bratanata adds that the rising generation of military leaders, who will undoubtedly shape the country's future in one way or another, are noticeably more "comfortable" with Islam. This stands in contrast with President Suharto and many of his present military advisers, who, he says, either come from the Javanese "mythic" school or see Islam, conventionally, as a political threat in need of containment.

Nevertheless, Mr Bratanata warns, it will not be enough if Abdurrahman Wahid and the NU are content with being merely "holy men." Indonesians have come to expect at least some results, be it in patronage,



Muslim girl students on their way to classes in Jakarta. More than 85 per cent of Indonesia's population of 165m are followers of Islam.

employment or some other form of practical assistance. He feels that Golkar, the Government's political organisation, is inherently weak and its ability to deliver, as it has over the years, a modicum of rewards, will decline as the economy lapses. But Islam will have to offer something concrete as an alternative.

Professor William Liddle, the US academic expert on Indonesian politics and society, who is spending this year in the Muslim stronghold of Banda Aceh in northern Sumatra, is more sceptical of the ability of Islam to fill Golkar's shoes. He doubts that Muslims will ever become a "political" majority in Indonesia and, unlike Mr Bratanata, sees little evidence that the young Muslim military officers have any interest in a wider role in the country for Islam.

### Involved

Both men also believe that Abdurrahman Wahid himself is placing too much store by the relationships and accommodations he is endeavouring to make with the civilian and military authorities. They do not question his skills in this respect, but wonder about the lengths they can take him and his organisation.

In common with the predominant national characteristic, Indonesian Islam is quite inward-looking and appears so far largely indifferent to the arguments about the role of Islam and the state that dominate external debate.

This insulation may be in the process of some change. Mr Wahid himself is encouraging exchanges of views with Muslims from other nations on the great global issues and only

last month the NU co-sponsored, along with, interestingly, the Ministry of Religion and the United Nations University, a conference in Bali on Islam and non-violence.

Mr Bratanata notes, too, that recently there has been considerable growth in the publication of books, in Indonesian, about foreign views on Islam. Professor Liddle adds, however, that not all the literature now being circulated inside the country is necessarily benign and that the works of revolutionary Muslim authors, including some from Iran are freely doing the rounds in intellectual circles.

From the standpoint of Government foreign policy, however, Islam does not yet loom as a major factor. Indonesia has not seen fit, for example, to establish diplomatic relations with Israel. There was some sentiment inside the Foreign Ministry to do so in the wake of the Camp David agreements, largely because Indonesia's closest connection in the Muslim world is probably with Egypt, but it never came to pass.

Indonesia enjoys relations with both Iran and Iraq, but has avoided mediation and any expression of preference in their conflict.

The next few years are likely to prove crucial in the evolution of the relations between church and state in Indonesia. The Government and the balance of the military seem still broadly intent on depoliticising religion, while the mainstream Muslims, like the NU, are embarked on a course which could lead to political revitalisation.

In the meantime, accommodation, uneasy at times, holds sway.

Jurek Martin

Islam entered Indonesia through the province of Aceh in Sumatra. Its people are still the most fervent Muslims in the country, as Jurek Martin reports here.

# Stronghold of tradition

THE PROVINCE of Aceh, on the northern tip of the island of Sumatra, has always been different. If there is one constant strain in Aceh's recorded history—from the visit of Marco Polo in 1292, through the savage war waged against the Dutch 100 years ago, to the delicate approach now employed by the Indonesian Government in Jakarta—it is that it is ill-advised to mess around with the Acehnese, the most fervent Muslims in the country.

There is one very contemporary and intriguing example. Indonesia, as a nation, was distressed by the poor performance of its athletes in the Asian Games. Jakarta's diagnosis was that inadequate training facilities were a prime factor and that funds were needed for them. The solution, said to be the brainchild of Mr Sigit Suharto, son of the president, was "porcas," a football lottery.

It was, and is, a controversial scheme, because gambling is widely considered un-Islamic. Local authorities in at least two provinces have refused to allow it to be introduced. In Aceh, however, it is hardly even mentioned.

Mr Hadi Thayeb, the Governor, explains that the province's Majelis Ulama (Islamic council) declined to rule on its propriety, but has referred the matter to the national Majelis. If it were to determine that "porcas" does not contravene the tenets of Islam, then perhaps—but only perhaps—it will come to Aceh.

### The Shariah

In other words, there is no chance of the Government forcing on the Acehnese what they do not want: it will only come through religious sanction.

Aceh is, along with the historical city of Jogjakarta, one of two specially designated administrative regions in Indonesia. This means that Islamic law (the shariah) is applied more often than not, Governor Thayeb argues that this is not inconsistent with a national policy. Indonesia, he says, acknowledges the place of "customary law" which, in Aceh, happens to be Islamic. In practice, if a judge has to decide a land dispute, then he will consider both national and customary law in making a ruling.

Mr Thayeb speaks with unusual authority on the role of Islam. He has been governor

for nearly four years and before that was Indonesian Ambassador in Saudi Arabia, where the shariah is the only law.

The differences he finds is that the Islam practised in Aceh, even though stricter than in the rest of Indonesia, is not as rigid as the Wahhabist school of Saudi Arabia (women are not as circumscribed in what they may and may not do in Aceh). Moreover, the Acehnese "do not forget that we are part of a greater entity, the country of Indonesia."

The brief impressions of a visitor bear out the governor's contentions. Banda Aceh, the capital, is dominated by a magnificent Moorish mosque built by the Dutch at the turn of the century, and the calls to prayer are ubiquitous (there is one Catholic and one Protestant church in the city).

The sale of beer is not advertised but is discreetly available. Women dress more modestly than in Jakarta, but the veil is the exception, not the rule. A fair share of the scooters around town are ridden by young women.

Evening life in the markets and warungs (food stalls) is lively and boisterous. Like everywhere else in the nation, cinemas show bad, invariably violent and soft porn movies. But modern reality has to be squared with Aceh's history. As Governor Thayeb concedes: "Hundreds of years of fighting and infighting against the Dutch, the British, the Japanese and even against our own government has created a certain mental attitude of introversion."

Islam entered what is now Indonesia through Aceh with Arab traders before Marco Polo's visit. He found an Islamic sultanate already established. By the 17th century, the height of the kingdom of Aceh's power, its fighting prowess was known throughout Sumatra and the Malaccan straits.

The Dutch colonial regime sought to bring Aceh to heel in the 1870s and 1880s in a war which, by Dutch reckoning, cost 250,000 lives but which the Acehnese say saw 3m people killed. Perhaps because of this, in the Indonesian struggle for independence, in the late 1940s, Dutch forces left Aceh well alone.

It is not known how many "communists" were killed in

Aceh in the pogrom following the 1965 abortive coup, but many Chinese who were implicated fled south to Medan. In 1976, a secessionist movement led by Hassan Tiro, an Indonesian diplomat at the UN with strong Aceh family connections, was short-lived and rigorously repressed. But it did apparently ignite some local disaffection with the Javanese, who were freely portrayed as "the new Dutch" colonialists.

A similar, albeit muted, strain of criticism abets on today because Aceh is, like the Islamic Gulf, a major oil and gas producing region. In fact Royal Dutch Shell's first oil well was found in Aceh in the last century. Today, the action has shifted to the southern provincial city of Lhokseumawe, site of the natural gas fields being developed by the Indonesian Government and Mobil Oil.

The city has seen its population double to about 600,000 in the past four years alone, with the inevitable conflict between traditional and imported values. Banda Aceh, the capital, has in contrast become "very quiet, rather like Bern," according to Governor Thayeb.

### Complaints

But the local population is also complaining that too little of the oil and gas wealth is staying in Aceh, while it is the Javanese, not the Acehnese, who are getting the best jobs. The governor again concedes a problem, but argues that oil and gas are a national resource and that some skills may have to be imported, if not locally available.

Aceh's history, however, probably means that Jakarta will be attentive to local discontent, but through administrative rather than political channels.

Professor William Liddle of Ohio State University, an expert on Indonesian political and social development, is spending this year in Banda Aceh training social scientists. He argues that it is possible to over-emphasise Aceh's separation from the rest of the country, its distinctive language, religious traditions and historical independence notwithstanding. "Aceh may be at the end of Indonesia, but it is unlike Irian Jaya and East Timor which are, quite literally, at the end of the world," he says.



The Chase Partnership at work. Chase EVP Jim Carey, Corporate Banking Executive (Center) discusses financing strategies with Chase Petroleum Executives. From left to right, Jim Bekke, Charles Buccico, Bob Weaver, (Carey), Jim Adamson and Chase Capital Markets Executive Bob Lichten.

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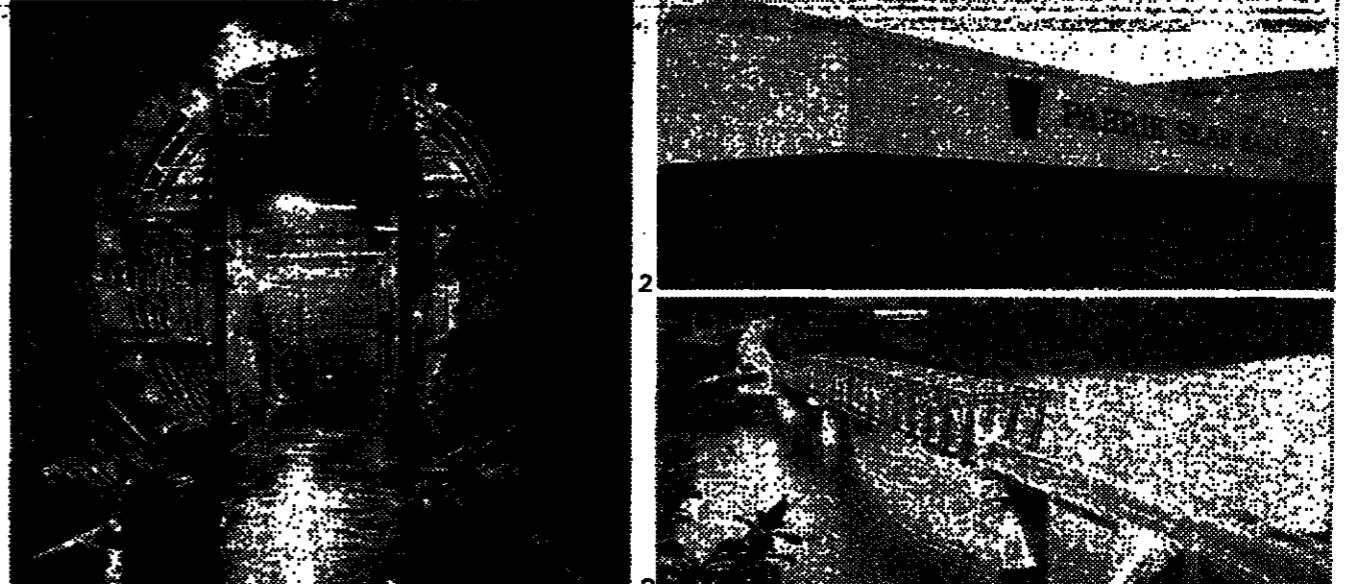
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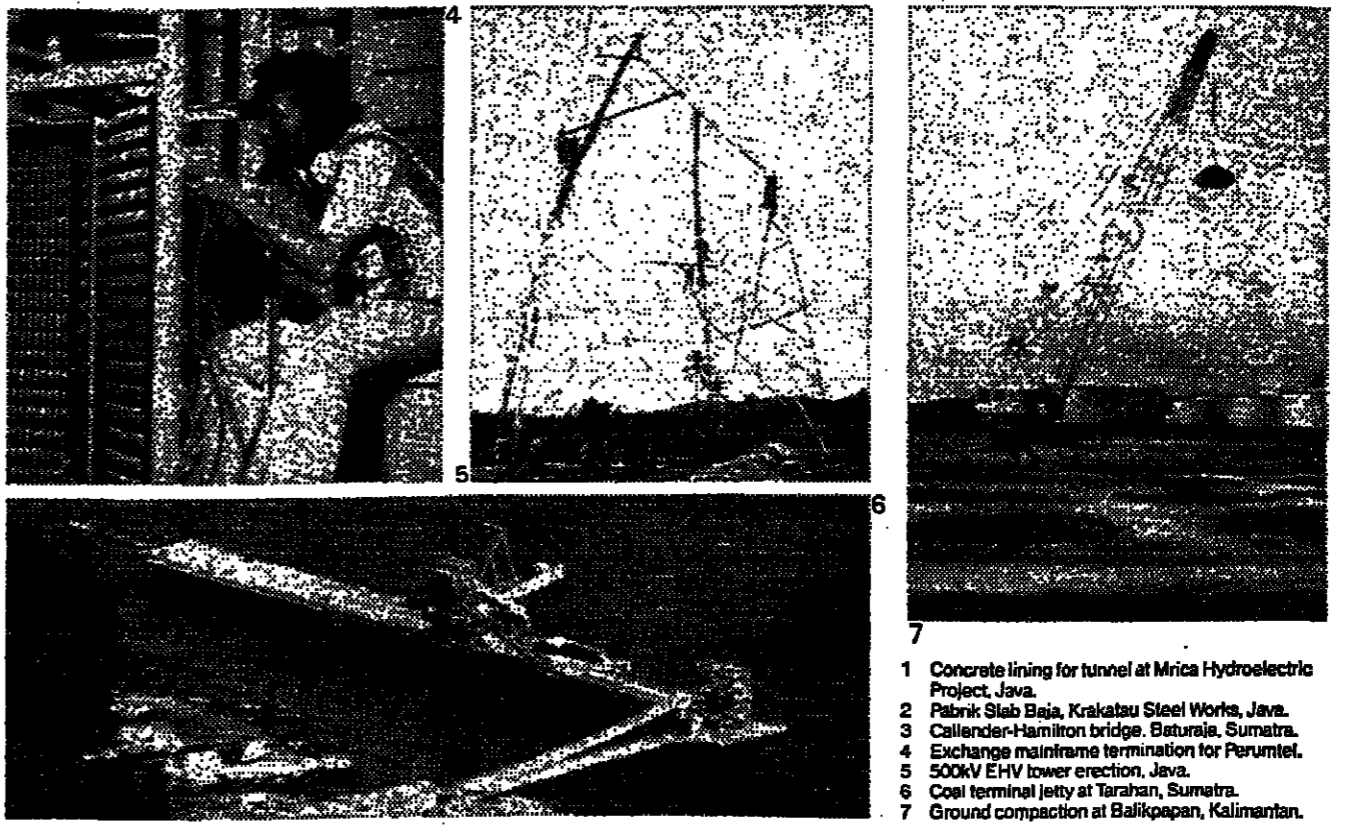
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Alain Cass examines the generals' dominant role in the nation's political life

# Military elite calls the tune

INDONESIAN GENERALS, unlike their counterparts in, say, Pakistan or Thailand, are not coy about their central role in governing the country. The army dominates Indonesian politics, has done so for more than 20 years, and is likely to go on doing so for the foreseeable future.

On the contrary, far from seeking to camouflage their dominant role the Indonesian armed forces maintain that they not only have a right but a duty to guide the country's destiny as well as maintain order and protect its borders. It is, in many ways, a unique example of military power institutionalised in civilian government.

The army derives its legitimacy in government from its decisive role in the fight for independence against Dutch colonial rule which ended in 1945. The armed forces were

also for many years, the prime source of trained leadership and administrative power as Indonesia struggled to develop its backward economy before years of the oil boom.

The armed forces' dominance has steadily increased over the years as the doctrine of *Das* taken hold and the number of serving and retired officers appointed to top jobs in government, the civil service and industry has grown.

Today that dominance is ubiquitous. The president is a general, so is the vice president. Fifteen out of 37 serving ministers are serving or retired military officers. Nearly half Indonesia's ambassadors, more than two-thirds of the regional governors, one third of the country's mayors and over half the district heads ( *bupati*) are

also military men. Seconded or retired senior officers have also been placed in charge of dozens of companies in the state and private sector as a reward for services rendered. Retired officers also sometimes get first refusal on major government tenders and can, as one senior general admitted, "make \$1m or \$2m, put the money in the bank and retire for life."

Over the years this complex patronage has allowed President Suharto to extend and defend his power base, promote loyal officers, shunt aside potential enemies or rivals and move from being *primus inter pares* to dominate a pyramid of which the majority of building blocks are army officers.

Through this system President Suharto's influence reaches down into every government

department, every military unit, every state-run corporation, even every village. President Suharto has also astutely used the hierarchical and paternalistic nature of Indonesian and especially Javanese society to reinforce his hold over the country and its institutions.

Not everyone, however, has been happy with this oligarchic way of running the country, not even within the armed forces which have benefited most from the experience.

In an impressive analysis of Indonesia's military elite, journalist, David Jenkins, catalogues the differing views within the armed forces towards what should be the army's role in developing the nation.

The book, *Suharto and his Generals: Indonesian Military Politics 1975-1983*, identifies two distinct schools of thought.

The first, what he describes as "the leadership group," a tightly-knit and extraordinarily powerful group centred on the President, has been broadly committed to a system it helped to create and in which its members have enjoyed enormous influence and privilege.

The second, which includes a number of prominent serving and retired officers, takes a more enlightened view believing that, as time passes, the army should yield up more and more of its powers to Indonesia's civilian population.

Nobody, according to Jenkins, has gone so far as to threaten the stability or security of President Suharto's government. Neither does anyone in the armed forces question the concept of *Das*. But a significant minority, including men like General Abdul Haris Nasution, former army chief and defence minister, and Lt Gen H. R. Dharsono, recently sentenced to 10 years imprisonment for his dissenting views, believe the system has gone too far.

### Two reasons

Those who have challenged the ruling group's view of the armed forces role have done so on two grounds. The first has been the apparent contradiction between the claim of the armed forces (Abri), to be above all groups in society, a little like the British monarch safeguarding the country's essential integrity, regardless of party politics, and their self-evident support for Golkar, the government political party.

The second issue concerns the appointment of military officers to jobs within the civilian sector, in government and the private sector. Answerable to the chief of staff, these men's loyalties were bound to be divided, reinforcing Abri's hold over the country's ability to develop. The critics want to see this development scaled back.

Another issue, identified by Jenkins, which has run through the debate about the army's role is the corruption which such a system has encouraged.

By 1982 President Suharto and his advisers accepted the need to reduce the number of military men in civilian or *soerabaya* capacities, though there has never been any question of Abri reducing its dominant role at the top of the legislative, executive and judicial branches of government. Neither does there seem to be any change in the attitude, developed by the officers prominent in the struggle for freedom, that the interests of the army, the state, and the people remain virtually identical.

The manner in which the regime dealt with Lt-Gen. Dharsono, who represents a distinctly moderate strain of opposition to President Suharto's New Order regime, also suggests that, while the ruling group will bend to the prevailing wind if it blows hard enough, it will not tolerate what it regards as disloyalty to the army—and therefore the state's—corporate beliefs.

The *Tan* group's activities include a \$100m logging and plywood operation in East Kalimantan, a construction and engineering company in co-operation with Jurong of Singapore, Sempati charter airline, a plant hire company in partnership with Malaysia's Sime Darby, holdings in insurance, and a trading company which



Gen Benny Mardani, above, the armed forces chief. Below, troops being inspected in Sumatra. Reforms are under way to create a leaner, more cohesive fighting machine.



### ARMED FORCES' NEW LOOK

EVER SINCE the abortive coup of 1965—a seminal event in Indonesia's modern history—Abri (the armed forces) have gone in for periodic shake-ups to tune themselves up, make themselves more efficient and, one suspects, to get rid of officers who do not see eye to eye with the regime.

In the latest of these, General Benny Mardani, the armed forces' chief, has launched a series of reforms widely admired by foreign military observers who believe they will create a leaner and more cohesive fighting machine.

A highly capable staff officer with a reputation for being blunt, decisive, aggressive and demanding of his junior officers, Mardani has attacked the Indonesian defence organisation with gusto. Believing it to be overburdened at the upper levels with too many separate commands leading to conflicting interests, he launched his reorganisation plan in March 1984 and aims to have it complete later this year.

His main aims are to rationalise the command structure and institute fundamental re-

forms within each of the three services. He has concentrated on honing a relatively small force of 20 battalions, organised into two divisions based in Java and Sumatra. This will complement Kostrad, the Strategic Reserve Command, a 19,000-man elite force, reputed to be the regime's praetorian guard.

Both forces are being fashioned to serve Indonesia's new defence concept of defending the country at its borders. This requires relatively small, highly mobile forces, able to respond quickly to external threats.

The remainder of the army will retain its traditional, territorial role of ensuring internal security in Indonesia's far-flung archipelago.

Indonesia's navy and air force, on the other hand, have lost their traditional territorial function and are being reorganised, in line with the army's elite units into quick-response forces able to fight a war along Indonesia's perimeter.

# Growing market for arms suppliers

FOR AN ARMY with so much political clout, the Indonesian armed forces are surprisingly modest in their shopping habits. A prolonged downturn in the country's oil-based economy which has meant that there is less money available for arms purchases than the military would like is the first reason. The second is that identifiable short-term external threats are few.

The prime concern of the Indonesian armed forces (Abri) is the maintenance of internal security and order in the archipelago, which comprises 13,000 islands and extends over an area the width of the US.

The sophisticated weapons which the Indonesians have acquired conform to Abri's newly-developed doctrine of a highly-mobile force, using carefully-selected equipment to defend this vast country along its borders.

Some of the armed forces' needs are being met by Indonesia's own fledgling defence industry. This includes 57-metre and 23-metre fast patrol boats manufactured under licence at the PT Pal shipyards in Surabaya; French-designed Puma and Superpuma helicopters assembled at IPTN (formerly PT Nurtanio) in Bandung and a wide range of small arms, artillery and ammunition produced by PT Pindad also at Bandung in West Java. In time Dr Rusli Habibie, Minister in charge of the country's defence companies, wants Indonesia to be self-sufficient in these items.

For the foreseeable future, however, Indonesia will be looking abroad for its more sophisticated needs. Earlier this year it was decided to order eight advanced F16/100 fighter aircraft from the US at a cost of between \$13m-\$25m each, depending on the training, technical assistance, armaments and avionics provided. The deal has been given White House approval but has yet to pass in Congress.

The F16s—Indonesia wants a full squadron of 96 aircraft—will be replacing the existing A4 Skyhawk and F5 Tigercats. Negotiations are continuing with Britain, meanwhile, for the sale of an undisclosed number of the British Aerospace Hawk single-seater fighter as part of the country's policy of diversification.

### Hawk trainers

Indonesia has become an important market for British defence items. Last year BAE sold 20 Hawk trainers to the air force while, last December, Britain concluded a \$120m deal with the Indonesian army to provide units of the Rapier missile system. A similar contract worth three 209 class 1300 submarines—the US and Argentina, for the purchase of larger vessels.

Talks are also continuing for the possible purchase of up to 600 Scorpion light tanks. Dr Habibie is looking for a collaborative venture with Alvis of the UK to manufacture the Scorpions. Dr Habibie has confirmed that he is still interested in the deal, but diplomats doubt whether Indonesia has the funds for such a venture at the moment.

Indonesia also needs larger ships which it cannot manufacture itself, including submarines and frigates. It is negotiating with Britain for the purchase of three Tribal-class frigates, and has purchased four destroyers of Dutch origin. Discussions are under way with West Germany which has provided three 209 class 1300 submarines—the US and Argentina, for the purchase of larger vessels.

One of Indonesia's most urgent needs is for adequate ground and airborne radar equipment to cover its vast territory. It has already acquired three Boeing 737s with sideways-looking SLAMMR multi-mission radar. The air force wants more and there is intense competition between Dr Habibie, who wants Indonesian-built CN235 transport aircraft to be used, and defence chiefs who prefer to acquire further Boeing 737s.

Indonesia is also looking for a major ground radar network for the country's approaches to complement its existing French-built Thomson CSF TRS-2215 and 2230 network in the west. Some diplomats claim there is considerable satisfaction with the performance of the French system as well as the minimal degree of training and technology transfer provided.

Major bidders for the new system include Hughes, General Electric, ITT and Westinghouse of the US, Bessy and Decca Navigation of the UK, Thomson of France and an Italian consortium.

Indonesia is also said to be interested in jamming and counter jamming equipment, radar simulators and a production agreement with France to manufacture the Exocet missile with which the navy's South Korean-built fast attack craft are already equipped.

A. C.

# Army has dual role in business world

THE *INDONESIAN* Armed Forces (Abri) through the doctrine of *Dwi Fungsi* (dual function) controls one of the country's biggest commercial and industrial empires in the country, spread across a vast and complex network of holding companies. Its interests range right over the nation in enterprises as diverse as shipping, timber, construction, airlines, shipping, entertainment, banking and cars.

Profits from these businesses are used to supplement the meagre defence budget for items ranging from ex-servicemen's pensions, the occasional procurement of weapons, the building of homes for low-ranking personnel and help for war widows and orphans.

They are also, officials concede, abused by senior officers in charge of some of the businesses to line their own pockets.

Each of the major services has its own network of companies. In addition, divisional and local commands frequently also operate companies of their own. No figures are published but most estimates reckon Abri companies generate additional funds for the armed forces equivalent to between 30 and 50 per cent of the defence budget of around US\$2.27bn.

Abri's role in business began in the 1950s when commanding officers in outlying provinces and in rural units. Powerful local commanders set up profit-generating businesses as a result. One of the first to do so was President Suharto, then a colonel in Central Java. The state oil company, Pertamina, also started out as an army enterprise under the ill-fated Ibn Sutowo, then a colonel.

In recent years, many of these conglomerates have been given formal status and, more

recently Gen Benny Mardani, who took over as armed forces chief in 1983, ordered a thorough review of their activities in a bid to make them more efficient and profitable.

A major problem, however, is that while many of these companies provide good training grounds, for enquiring officers with management as well as fighting skills, they also provide a ready-made source of funds for senior officers who are the subject of the current shake up. The army-owned Bank Dharma Ekonomi which collapsed in 1984 was one casualty.

The *Tan*-dominated military elite has recently turned to Indonesia's Chinese community for help in streamlining the Abri business empire, providing insights for senior officers who are the subject of this element in the population.

One prominent example is Mr Sofyan Wanandi, a civilian Chinese (all Chinese in Indonesia have to take Indonesian names) who has been given the job of running *Tri Usaha Bakti*, the army's holding company.

The company's activities include a \$100m logging and plywood operation in East Kalimantan, a construction and engineering company in co-operation with Jurong of Singapore, Sempati charter airline, a plant hire company in partnership with Malaysia's Sime Darby, holdings in insurance, and a trading company which

exports coffee, quinine and tea from West Sumatra.

*Tri Usaha Bakti*'s annual sales figure is put at \$250m, according to Mr Wanandi, making it the biggest company in Abri's stable.

Since taking over, he has ruthlessly streamlined the operation, closing down 15 companies. "We have clear instructions. The company has to be run on a purely business basis. If one part is not making a profit it goes," he says.

Mr Wanandi's biggest headache is getting retired senior officers, more accustomed to giving orders than taking them, to become professional business managers. There is, he concedes, some tension but on the whole "people get down to the job." Not surprising, perhaps, when a major-general in the army earns less than \$300 a month and he can get two or three times that, running an Abri company.

Mr Wanandi, whose family has had close links with Indonesia's ruling military elite for some years, recently sold the company's shares in an Indonesian shipping concern, "because we don't see a future in that line," he said.

Before taking over *Tri Usaha Bakti*, Mr Wanandi used to run the companies owned by Kostrad, the Strategic Reserve Command and the regime's praetorian guard. Kostrad owns 8-10 companies including Mandala domestic airlines and the sole agency for assembly and sale of Volkswagen cars in Indonesia.

"I did the same thing there," says Mr Wanandi. "We are determined to turn all our military companies into efficient and competitive units."

A. C.

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Indonesia's relations with the US and Japan have improved, but links with Vietnam loom large, as Jurek Martin reports here.

# A new interest in the world outside

TWO YEARS AGO, President Ronald Reagan abruptly cancelled a South East Asian tour, which was to have included Indonesia, because a visit to the Philippines was deemed unsafe, impolitic or both. However, in a few weeks' time, the US President will stop over for a rest in Bali, en route to the Tokyo economic summit.

President Suharto will confer with him there and Indonesian pride—dented by Mr Reagan's non-appearance in 1983, as well as by a couple of other perceived US slights—will have been assuaged, at least in part.

It is perhaps a commentary on the generally uneventful course of Indonesian foreign policy under President Suharto that even a fleeting US presidential visit should be considered of such moment.

Under his predecessor, President Sukarno, foreign policy often seemed an eternal adventure, as the country sought to establish itself in the world after independence, as it associated itself with the birth and even leadership of the non-aligned movement, and as it annexed Irian Jaya, confronted Malaysia and flirted successively with the Soviet Union and China.

Curiously, however, it is the widespread view among both Indonesian and external foreign policy analysts that the core of Indonesian policy to the rest of the world has not changed that much in substance between the two presidents. The stylistic difference has, of course, been vast between the flamboyant Sukarno and the much more diffident Suharto, whose experience in international affairs was minimal before he took power and whose interests appear to have developed only in the past few years.

For the most part, President Suharto has been content to delegate the running of foreign policy to a succession of able technocrats, such as the present Foreign Minister, Dr Mochtar Kusumadiponegoro.

Although Indonesian officials, naturally, refuse to admit as much, this probably reflects the fact that foreign policy still takes second place to domestic affairs in the eyes of the President's inner circle and those in senior positions in the military.

Of late, however, there have been signs of greater personal interest on the part of the President. In a 1983 speech to the European Parliament, he said that a "new era of human rights policies" was beginning in Indonesia. However, US confidence in the

removal of President Marcos in the Philippines could cause some anxious soul searching in Jakarta about the real nature of US resolve to help its "friends."

But if Indonesia's basic foreign policy approach has changed little, the world around it has not been static. The emergence of China from its long period of isolation creates particular problems for Indonesia, which still sees a Chinese hand in the abortive 1965 coup and whose military leaders still believe that China constitutes the greatest threat to regional stability.

It was, therefore, with mixed feelings that Indonesia received the Chinese Foreign Minister, Wu Xue Qian, at the Bandung celebrations last year. Even though his formal session with President Suharto was reportedly perfunctory, his presence, the first by a Chinese minister in 20 years, was something of a shock to the Indonesian psyche, to the extent that for the moment Indonesia seems intent only on pursuing the most cautious of expanded commercial contacts with the People's Republic.

Similar overtures from the Soviet Union, brought about by Mr Gorbachev's determination to forge better Asian relations, received an equally circumspect response.

Coming to terms with Vietnam, however, is being accorded a higher priority, at least to judge by the official traffic between the two countries. Though the Vietnamese leadership pointedly refused to attend the Bandung conference, General Mardani did entertain both the Vietnamese defence and foreign ministers last year, while Dr Mochtar went to Hanoi.

The Foreign Ministry and the military appear to be operating from different, though not necessarily contradictory, perspectives. Dr Mochtar's principal mission is as leader of the ASEAN drive to bring about a solution to the Kampuchean problem and to restore relations between Vietnam and the US; he sees this as a key test of ASEAN's ability to conduct a foreign policy of its own.

Military strategists, however,



President Reagan: he and President Suharto will confer soon in Bali

have long been sympathetic to Vietnamese nationalism, not least because a stable, independent Vietnam could serve as a buffer against the Chinese threat and thus promote Indonesia's security interests. Indeed, both Vietnam and the US loom large as complementary elements in the military's regional assessment.

One interesting by-product of the exchange with Vietnam has been an increase in trade. This had been ticking along at a minimal level of only \$2m a year from 1979-84, but in the last four months of last year Vietnam purchased \$20m worth of Indonesian goods.

## New markets

Indeed, the commercial imperative for Indonesia is now such that it must seek markets it previously could ignore, which includes China and the Eastern European bloc, as well as Vietnam.

The greater involvement of both the Indonesian Foreign Ministry and its military with Vietnam has created some misgivings inside ASEAN—and not merely from a country like Thailand which is most exposed to the Kampuchean issue, but also from most critical of Vietnamese policies. Over the years, Indonesia has been careful not to throw its undoubted weight around inside ASEAN as its largest, most powerful member. Some other nations appear concerned that this deferential approach may be coming to an end.

If so, that would mark a significant departure from Indonesian foreign policy norms. It is widely believed, for example, that a principal reason for Prime Minister Ghandi's non-attendance at the Bandung celebration last year was Indonesian frustration at Indonesia's parochialism and disinclination to assume any form of leadership role.

# The Japanese connection

IN JAKARTA, Mr Hadi Soesastro, of the influential, military-connected Centre for Strategic and International Studies, adopted an air of resignation. "Overall, our relationship with Japan has lost its excitement," he commented. "From an Indonesian point of view, it seems that Japan has become irrelevant, which it should not be."

In Tokyo, a senior official at the Japanese Foreign Ministry surprisingly takes a similar line. Having carefully run through the complex web of commercial ties between the two countries and having taken note of historical and cultural similarities, he, too, adds that "Indonesian leaders, especially in the military, are now much closer to the US; Japan is now just one of many countries politically, as far as Indonesia is concerned."

There is no overweening crisis in the bilateral relationship at present, beyond the perennial Indonesian concern that Japan, in diversifying its sources of raw material supplies, might become a less avid buyer of Indonesian oil and other commodities. Nor is there the palpable tension between the two that was evident, for example, in 1974 when serious anti-Japanese riots broke out in Indonesia on the occasion of former Prime Minister Tanaka's official visit.

Indeed, at a government-to-government level, relations are cordial and correct, while, less exalted, Japanese tourists are discovering the delights of Indonesia, especially Bali, in ever-increasing droves.

The ties that do bind the two nations remain considerable. Japan buys half Indonesia's oil output and 80 per cent of its liquefied natural gas. Indonesia is easily the biggest shipper of plywood to Japan, increasing exports by five fold in 1984 and three fold last year.

Only the US ranks above Indonesia as a site for Japanese foreign capital investment and no foreign country has invested anything approaching the approximately \$3.14bn that the Japanese private sector has sunk in, if oil is excluded.

This total, the sum of 212 individual projects, comprises about one-third of non-oil foreign investment in Indonesia over that span.

Additionally, Indonesia is comfortably the largest individual recipient of official Japanese foreign aid, and

## JAPANESE PROJECTS

New projects approved by the Indonesian Government

	Number	Amount (\$m)
1970	28	36
1971	25	115
1972	21	77
1973	44	249
1974	33	447
1975	26	938
1976	6	30
1977	7	22
1978	28	31
1979	3	13
1980	5	30
1981	5	76
1982	11	522
1983	12	458
1984	2	31
1985	9	63

Source: Investment Co-ordinating Board (ICPB)

Japanese banks are leaders in providing credits to Indonesia. The connection goes beyond the merely commercial. An anthropologist could not fail to be struck by the many similarities between the Japanese and Indonesian, especially Javanese, peoples. They have in common a rice-growing heritage, a social preference for identification by groups, rather than individualism, and languages rich in direction and nuance. Even national tastes in cultural design as disparate as textile design and traditional dance and music are remarkably close for nations 3,000 miles apart.

Violence

Though apparently peaceful societies, both have shown occasional proclivities for great acts of violence and cruelty (Japan in the last war, Indonesia in the anti-communist pogrom after the abortive 1965 coup in which several hundreds of thousands were slaughtered).

Japan, of course, occupied Indonesia in the last war and sought, with some initial success, to develop the indigenous burgeoning sentiment against Dutch colonialism. Many young Indonesian nationalists received Japanese military training and education.

Even after the war, in an act of reparation, thousands of young Indonesians were offered schooling in Japan. These old personal connections, probably, in any case, more valued by the Japanese than the Indonesians, are now

dying out with the passage of time. They have long since been replaced by US influence, for most of the current generation of Indonesian military leaders and government technocrats have acquired their skills either at home or in the US, or both, to the point where Berkeley and West Point "mafias" abound in Jakarta.

There is today no comparable Japanese equivalent. The legacy of the last war has made Indonesia as sensitive to suggestions of renewed Japanese militarism as any other conquered Asian country. But the good relations Indonesia enjoys with the US and the US enjoys with Japan have created a climate of minimal mutual suspicion on strategic regional issues. In recent years China, South Korea and other ASEAN nations have been more critical of increased Japanese defence spending than has Indonesia.

The commercial story is, however, different. The stability of the Suharto regime has been built, in good measure, on its economic development policies, to which Japan has contributed considerably. The current rub is that that contribution seems to be drying up.

There has been a dearth of new Japanese investment in the past two years. More than that, some Japanese partners are pulling out of existing joint ventures (in steel, textiles and plywood). Of those that remain, Mr Masaaki Horiguchi, who runs the Jakarta office of the Japanese Export-Import Bank, reckons that probably 30 per cent are losing money and only a further 30 per cent are operating at a profit.

Both Mr Horiguchi and Mr Soesastro of the CSIS agree that part of the problem can be laid at the door of Indonesia's deliberate import substitution policies, which have left many industries, especially in processing, at market saturation levels and thus unattractive to existing and potential foreign investors.

Mr Soesastro argues that new government investment policies and priorities are needed. Mr Horiguchi, who is generally optimistic on Indonesia's longer term prospects, thinks that lower domestic interest rates and a slashing of bureaucratic red tape would help reduce the cost of investment, which he says is now dangerously—and uncompetitively—high. But he concedes

But what makes the Japanese really nervous is that the underpinnings of Indonesia's development strategy—and, by extension, even its political stability—could be weakened by the collapse of oil and other commodity prices.

For its part, Indonesia's position is that Japan must surely understand that its own regional security policies would hardly be enhanced, and that it is therefore incumbent on Japan to continue to put its faith, and investment money, in Indonesia.

Suspicion

The debate is given particular bilateral point by the Chinese factor. Sino-Indonesian relations, though improved of late, are still fraught with suspicion, mostly on the Indonesian side. Nevertheless, as Mr Soesastro puts it, Indonesia cannot object to any improvement in Sino-Japanese relations "so long as it is not at our expense."

Indonesia fears, however, that it will be and that Japan will either simply start shopping around for cheaper supplies, especially of oil, from China or even that it may be forced to contract to buy more oil from China (and less from Indonesia) as a way of rectifying its serious trade surplus with the People's Republic.

Indonesia is thus pressing Japan to guarantee it a percentage of the Japanese domestic oil market (it now has about 10 per cent for oil, or 15 per cent if LNG is included). The Japanese counter is that more flexible Indonesian pricing policies might help. As a buyer in a buyer's market, the boot is currently on the Japanese foot.

The plywood trade is bedevilled by tariff problems, with Indonesia complaining, with some justification, that Japan is more intent on offering concessions to North American producers.

Japan has promised to iron out any tariff discrepancies by 1988, but renewed US pressure for even lower duties may render this pledge suspect. A recent exacerbating issue has been over whether a new international timber association should have its headquarters in Yokohama or Jakarta.



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Indonesia's economic planners struggle with the problem of plunging world oil prices and the need to see more investment in the energy sector

## Oil: hard lesson in market response

FOR THE first three months of 1985, oil prices on the international market took a couple of quick steps downward but Indonesia, and many of its Opec brothers, were not prepared for the downturn. When foreign buyers of Indonesian crude balked at the country's stiff Opec-tied high crude price, oil tanks suddenly filled up and production ground down from 1.3m barrels a day to close to 900,000 barrels a day.

During that period it took sluggish strategists at the Energy Department and Pertamina, the state oil monopoly, some six weeks before they could respond to the market and bring production back to normal. Indonesia learned a hard lesson in market response and flexibility. The country cannot afford to see its oil-dependent economy stifled while new situations are worked out.

In the rest of 1985 high-level teams continually worked out market scenarios and solution possibilities well ahead of real market changes, to ensure the country's lifeblood kept flowing. At the same time, they have tried to best satisfy two often conflicting goals of maximising crude export potential and maintaining solidarity with Opec.

The Jakarta Government has striven over the past four years to lessen its dependence on oil and gas exports, knowing that the market could fall into the disarray that it has this January and February.

The nation's economic planners, who can hardly be faulted for over-optimism, wrote a 7 per cent cut into the proposed fiscal 1986-87 budget this year. They cannily foresaw the plunge in oil price in the first half of the year. But like oil economists worldwide, they hardly expected the fall coming in January, and for it to go as far as it has.

Oil is still crucial to Indonesia. In the 1986-87 budget, oil and gas will provide 55 per cent of Government receipts, down from 65 per cent two years ago.

About 70 per cent of the country's foreign earnings will come from the same sector. Indonesia has the capacity to produce about 1.6m barrels a day and has been producing more than 1.4m barrels a day, including condensate, which is not included under Opec pro-

duction limits. Only about 5 per cent of the oil is produced by Pertamina, the rest by foreign oil companies who act as "production sharing contractors" to Pertamina. The three dozen foreign contractors invest money in exploration in a contracted area, and if oil is discovered in sufficient quantity to develop, the foreign company can recover its investment from oil sales and afterwards net 15 per cent of production after taxes.

If the companies discover gas and develop it commercially, as several have, they can net 35 per cent of the sales proceeds after investment costs are recovered. This production-sharing concept, pioneered by Pertamina in the mid-1960s, has contributed greatly to stable development of the industry in Indonesia. Only recently has it been threatened, mostly by the low prices on the international market. The Indonesian archipelago is fairly mature as an oil province, and only a few areas can be called virgin territory. These areas are not expensive to explore, and thus less attractive as oil prices stay lower.

### Slim chances

Another risk is that the chances of a large oil find are increasingly slim. The geology is such that it is doubtful finds like Caltex's Minas field, which has been producing hundreds of thousands of barrels daily for some thirty years, will be repeated. Most likely are fields of 20-50m barrels total recoverable reserves, large enough to produce commercially but not, in the existing crude market, especially profitable.

Despite these considerations, Indonesia attracts investment. According to Pertamina, exploration drilling will increase this year over 1985, and seismicological survey levels will be only slightly lower. Planned spending for exploration activities is expected to drop 4.8 per cent to \$87m. This represents more of a decrease in the cost of exploration in Indonesia, than it does reduced activity explains Pertamina spokesman, Zuhdi Pane.

Total foreign oil company spending in 1986 is expected to increase 8.3 per cent to \$3.6bn. This figure reflects several major projects in process.

One scheme is the Duri steam by Caltex, the country's largest producer, in Riau Province, Sumatra. Caltex plans to spend about \$2bn by the year 2010 to pump steam into the Duri oil field. It will be the largest steam flood secondary recovery project in the world.

Atlantic Richfield Indonesia, already producing from an offshore West Java block, is putting in a massive development project on the 100 million-barrel Bina field in the same region. About 50 wells are being drilled to produce through seven offshore platforms in the first stage of development.

The second stage is expected to be larger, and industry analysts say Arco will not hesitate over the project in the face of a poor crude market. Three real pioneer areas are just being opened up. The first is the centre of Kalimantan, where French companies Total and Elf Aquitaine have contracted immense acreage never before surveyed for hydrocarbons. The thick jungle of central Kalimantan is thousands of kilometres away from any minimal accommodations and services, and is only sparsely inhabited by small bands of Dayak tribesmen.

Together, Elf and Total are trying to open up 60,000 square kilometres of barely accessible land; the investment could run into hundreds of millions of dollars. This kind of investment, as one oil executive says, pays no heed to the short-term crude market. A discovery now, as drilling is only getting under way, would not be produced commercially for three more years. By then, the market will probably be on the upswing.

The same philosophy holds for the far east province of Irian Jaya, the western half of Papua New Guinea. On the west tip of that province, called "Bird's Head," for cartographical appearances, oil has been produced since before Indonesian independence. But the main mass of Irian Jaya has only encountered natural gas, while some areas still populated by stone-age tribesmen, is only just being explored.

Oil majors such as Shell, Amoco, and Conoco are actively drilling wildcat wells in remote areas. Shell so far has only encountered natural gas, while reports say Conoco has made small oil discoveries. The third unexplored expanse just being opened up is

the Arafura Sea, south of Irian Jaya. Exploration in the Arafura Sea is necessarily expensive for the distance from any supply depot. The islands in the area are hardly inhabited and no fuel or food supplies are readily available. Exploration in the area could be four times as expensive as the same would be offshore Java.

International giant Diamond Shamrock and a regional oil company, Promet Bhd of Malaysia, are both taking on Arafura. Both have contracted their own areas, and have let the other "farm in" for a per cent. Promet has already drilled one well, judged a dry hole, but will be attempting a second later this year.

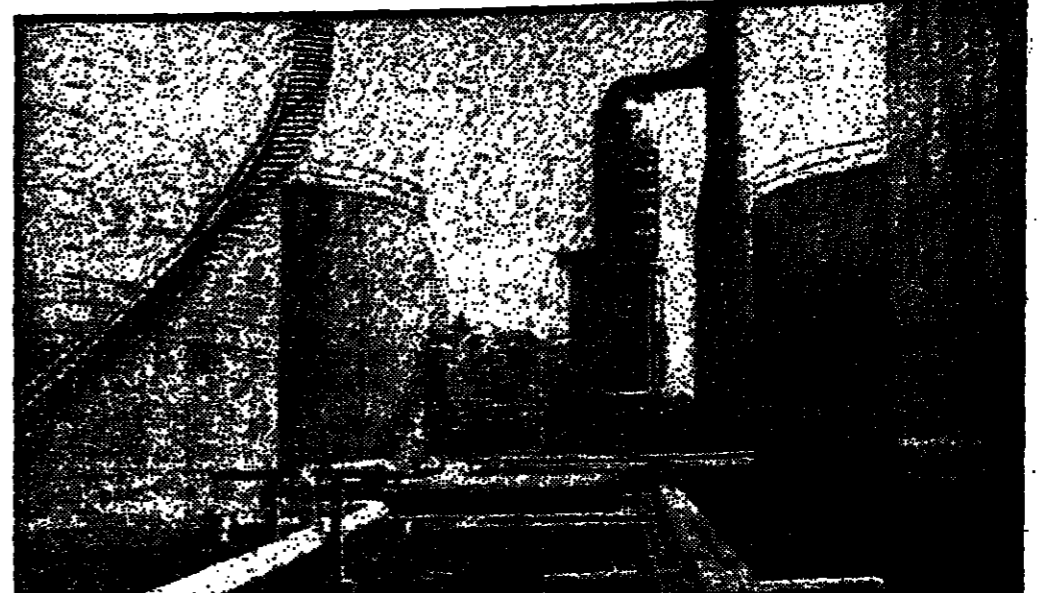
Why does exploration continue steadily when in other

countries it is falling off? The main reason, oil companies say, is that the Indonesian Government provides a stable, attractive environment for the companies' investments.

Politically, there is a calm that is unusual in developing countries. Businesswise, Indonesia publicly recognises the need to keep oil production at present levels, and accepts that foreign companies are important to maintaining those levels.

To attract foreign companies, the Government also understands the need to offer them good terms. As simple as this seems, many nations have difficulty offering it all the way that Indonesia does.

Ian Williams



Oil is crucial to Indonesia's economy. In the 1986-87 budget, oil and gas will provide 55 per cent of Government receipts

British Petroleum's operations in the Indonesian energy sector are unmatched by any other multinational, as Ian Williams reports here.

## BP's expansion plans set the pace

WITH NEARLY US\$1bn allocated to build its position in South-east Asia, British Petroleum has set its primary sights on the Indonesian archipelago. Starting from early 1985, the company has expanded operations across the country at a pace unmatched by any other multinational, taking the position that while things are slow economically now, the nation's long-term potential looks promising.

BP's foundation in Indonesia is oil exploration. Of 10 blocks in which BP has an interest, three are producing oil—one more than 35,000 barrels a day. But, Mr John Turnbull, chief executive for BP in Indonesia, says the oil exploration sector is quickly becoming just a minor part of the company's activities.

It is pushing hard into shipping services, offshore engineering, gold and coal mining, alternative energy development, and downstream oil industries such as refinery management and petrochemical development. Two chicken-breeding projects have also brought in BP technology. The big push began with an Asian strategy summit of BP managing directors in Hong Kong more than a year ago.

They decided to boost assets in South-east Asia from 1 per cent of the group's worldwide total to 5 per cent by 1990. Oil and gas exploration was a natural starting point, but diversification into the petrochemical sector and beyond was as important.

Within Indonesia they have already spent almost US\$300m, mostly on hydrocarbon exploration. The first step in 1970 was in two offshore blocks in the Makassar Straits between Kalimantan (Indonesian Borneo) and Sulawesi (Celebes). The ventures proved unsuccessful, but BP had successes in 30,000 sq km of onshore Sulawesi. This block, known as Senggang and contracted in 1973, held a medium-sized gas field of an estimated saleable 400bn cu ft.

BP is still the operator of Senggang with partner Chevron and also operates the 10,000 sq km Merangia area in South Sumatra. The area contracted from state oil company Pertamina in 1984, is undergoing preliminary exploration activities. BP redrilled the well of a company which roughly explored the area many years ago, with no luck. Mr Turnbull, also head of BP Petroleum Development Indonesia, the company's local exploration arm, says a wildcat

well is scheduled for June 1 this year.

In 1983 BP and Lasmco, another British oil company, purchased the Canadian company Hudbay Oil, which held interests in Indonesia. Hudbay's on and offshore Malacca Straits block, between Sumatra and peninsular Malaysia, has been producing more than 30,000 barrels a day since startup in mid-1984. Hudbay is developing several smaller fields in the same block.

### Significant find

Buying Hudbay also earned BP interest in the Madura Straits block, which Hudbay operates off East Java. The area is one of the more promising hydrocarbon provinces in Indonesia and several other companies have discovered oil and gas. Hudbay has made one gas discovery and is working on a number of other possibilities in Madura.

BP has minority interests, its own and through Hudbay, in five other areas, one a main producing area off south Sumatra operated by Diamond Shamrock. The Kakap Block in the South China Sea is already producing some oil and will begin producing another

significant find later this year. BP has nearly 19 per cent as a partner of operator Marathon Oil.

This is only the base of operations. With the gas in the Senggang block in central Sulawesi, BP hopes to develop with several partners an ammonia plant; discussions are under way on financing. Some hesitation has been felt by ammonia buyers arising in part from the plunge in the oil market which is driving energy costs down. But BP and Pertamina, which oversees parts of the development, say it is still going ahead.

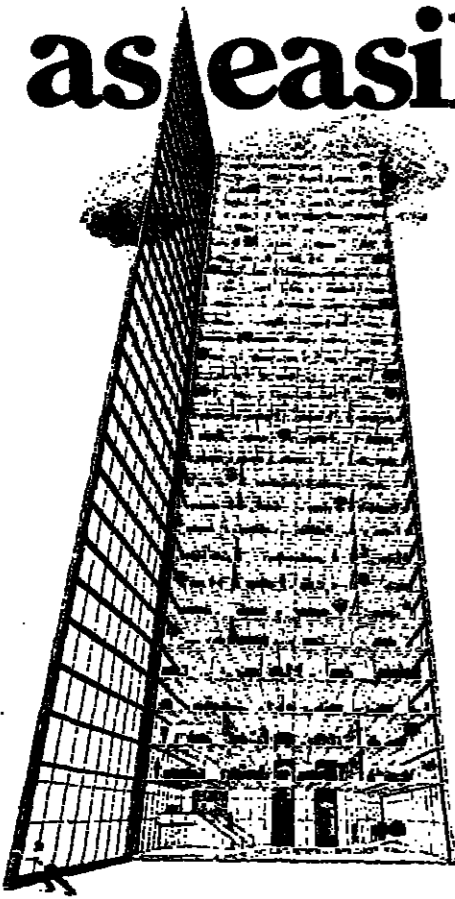
In other minerals, Indonesia is undergoing a new growth and BP coal is taking a strong role. In a 50/50 partnership with CRA of Australia, BP is planning the development of what is newly estimated as possibly 100m tonnes of high-grade coal in east Kalimantan. The venture, known as PT Kaltim Prima Coal, is reviewing plans for development of an export-oriented mine. Development costs promise to be low. The coal is in large seams breaking the surface with very little overburden, and is not far from the coast.

These large operations overshadow the smaller, multifarious BP business also making entrances into Indonesia. Mr Turnbull says "We have brought in one man, John Swann, specifically to research new areas where BP might find opportunities to work with Indonesia," he says.

Mr Swann, as business development manager for the country, says he enjoys his broad portfolio. His work on pitching BP's ideas on the potential for development of downstream petrochemical industries in Indonesia absorbs a lot of his time, but this is an area of great promise for both Indonesia and BP.

Working with Mr Swann are representatives of BP Shipping and BP Solar Systems, both in Indonesia to seek opportunities. With a lot of remote territory in need of small power systems and communications, BP's photovoltaic technology has lots of applications according to Mr Ian Ingram, the BP Solar Systems representative.

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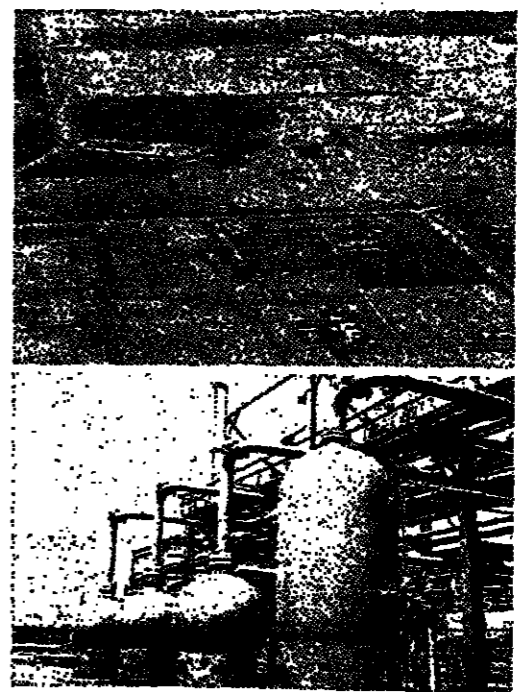
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The outlook for manufacturers and the high cost of domestically-produced goods is causing concern, Alain Cass explains here.

Shake up in car sector on the way

AFTER SEVERAL years of decline the Indonesian car industry is in deep trouble and faces a major shake-up. Only a handful of the 21 local assembly plants associated with foreign companies from 12 countries are breaking even and even fewer are profitable.

Government officials recognise that the only way to salvage a viable local car industry is to rationalise existing plants into a few—perhaps as few as three—groups. Reformers in the Government gained a powerful ally when Dr Yusuf Habibie, the outspoken Minister of Technology and a confidant of President Suharto, called for a massive restructuring of the industry last year.

The key to restructuring is that 80 per cent of the current market be served by only four assembly plants, 10 per cent by three others and the remaining 10 per cent by the other 14 producers. A restructuring is likely to concentrate around the four major producers—Mitsubishi, Daihatsu, Toyota and Chevrolet. In the Indonesian car industry is dominated by the Japanese who control over 93 per cent of the commercial vehicle market and just under 92 per cent of overall vehicle sales.

Big names

Household Japanese names such as Daihatsu, Mitsubishi, Toyota, Honda, Suzuki, Isuzu and Datsun, are well represented. Other manufacturers, including Chevrolet and Ford of the US, are also using Japanese-made engines. Daihatsu with its Eijet 1000, for which the sole agent is Astra, and the Suzuki Carry, for which the sole agent is Indo Mobil Utama, dominate the commercial vehicle market. The major players in passenger vehicles are Honda and Toyota.

Unlike some of its neighbours Indonesia can make out a good thing from its car culture. A substantial land area and a huge, captive local market provide a sound basis for moving from assembly to manufacturing.

But a combination of overcapacity and the effect on purchasing power of falling oil prices has knocked the industry sideways. Production, as opposed to installed capacity, has been dropping sharply since 1983. In 1981 production was 201,653 vehicles. It then dropped to 189,653 in 1982 and drastically to 155,938 in 1983. Last year production estimates were around 140,000, well below half the installed capacity of 385,000 vehicles a year.

Indonesia's car industry lacks the economies of scale and the expertise to manufacture anything like the full range of cars and trucks locally. Observers estimate, for instance, that truck engines made locally—currently a major objective set by the Department of Industry—would be 30 per cent more expensive than imported ones. Another estimate reckons the Toyota Kijang, the most popular pick-up truck in Indonesia, would cost three times as much as world prices if produced in Indonesia. Nevertheless, the Government is pressing hard with plans to encourage local manufacture, although the original deadline of doing so by the mid-1980s is hopelessly out-of-date.

For the time being the Government is concentrating on the local manufacture of some components. Even this limited objective is proving elusive, however. One western embassy in Jakarta reports that six local companies producing brake drums are dangerously near bankruptcy.

The attempt to rescue Indonesia's languishing car industry is being done behind a solid protective wall of import tariffs. Most cars and trucks are subject to 100 per cent import duty. The importation of commercial vehicles is knocked-down from 15 per cent to 10 per cent and, last year, the Department of Industry banned the import of complete engines. These now have to be disassembled into kits before being imported.

The hope is that a combination of protectionism and drive restructuring measures will improve the Government's chances of nursing Indonesia's car industry towards recovery and, in time, steady growth. With a severe economic recession and no signs of an improvement it demand this seems more of a hope than a certainty.

A. C.

A. C.

Slowdown continues

WITH VERY FEW exceptions, Indonesia's industrial sector, and in particular its young manufacturing base, is mired in a deep slump. The decline in oil revenues has meant less investment, on the one hand, and less disposable income, on the other. The result is an unhealthy combination of overcapacity and outdated equipment which has left many companies on the verge of bankruptcy.

During the boom years of the 1970s, the government made big investments in heavy industry, while the private sector poured its money into light manufacturing operations, such as textiles, electronics, pharmaceuticals and plastics. In a recent study, the US embassy in Jakarta blamed government protectionism, restrictive import licensing and marketing, and production inefficiencies for the slump. Indonesian-manufactured goods, it claimed, were up to 50 per cent more expensive than their counterparts on world markets. Many of the 222 state manufacturing corporations, said the study, are losing money, their warehouses filled with surplus products. The emergence of a modern industrial sector in Indonesia is fairly recent. In 1980, the contribution of large- and medium-sized manufacturing industry to the gross domestic product was 10.3 per cent. By last year this had risen to 12 per cent.

Large scale

During the 1960s and 1970s, the sector underwent a drastic structural change shifting from industries which relied heavily on the agricultural sector—such as food and tobacco—to consumer durables and medium to heavy industry.

Industrial activity in Indonesia is largely concentrated in Java which accounts for 85 per cent of all medium- and large-scale industries. This is due to better transport facilities, infrastructure and government services. It may also have something to do with the fact that the country's ruling elite comes from Java, by far the most heavily populated of the islands in the archipelago. The government has already conceded that target growth rates for industry will not be achieved. Mr Hartarto, the

Minister of Industry, told reporters last year that the annual average growth rate of 9.5 per cent as envisaged in the fourth five-year plan (Repelita IV) is unattainable. Among the worst hit industries are: ● Cars. The industry is operating at below 40 per cent capacity. No more than three of the country's 22 assemblers are profitable. The industry is due for a major restructuring which is likely to reduce the number of existing plants to no more than four. In spite of this foreign investors are still keen to enter this potentially lucrative market. Honda of Japan, which is already assembling motorcycles locally, plans to build a \$115m automobile engine casting plant in Indonesia. ● Cement. Capacity was built up rapidly to meet anticipated local demand and now stands at 17.5m tonnes. Nineteen-eighty-five was the largest record in building and selling small tankers, patrol boats and coastal freighters. The plan is to turn it into Southeast Asia's biggest shipyard within ten years.

In spite of this the slowdown in industry and construction is likely to continue for some time to come. Some policymakers are beginning to blame excessive protectionism and monopolistic practices in government licensed sectors for the sector's high costs and inefficiency. The government has responded to the crisis by drawing up a plan which includes developing the engineering and electronics industries, boosting small-scale industries, the development of exports and improvement of research and development, and the improvement of manpower qualities. In the final analysis, Indonesia has little choice but to make up in the manufacturing sector what it loses in oil revenues. The point is made by a senior aid worker: "The single most important improvement they can make is to develop their human resources, their people. Managers, shop-floor personnel, designers need to come to grips with the concepts of cost-efficiency and quality control."

They may also, he added, have to be a good deal more ruthless in exposing Indonesian industries to the chill wind of foreign competition. ● Pulp and paper. Hopes for a major boost received a setback last year. The nation's 33 plants, capable of producing 846,000 tonnes, are working below capacity while attempts to penetrate foreign markets are becoming increasingly difficult. Plans to build a large kraft paper plant at Aceh, Sumatra, have been postponed.

co-operation agreement with the French Director-general for Armaments. With an eye to overseas markets, Dr Habibie is keen to produce the Exocet missile. But the enterprise which gives him greatest satisfaction comes under fire from critics who accuse him of being an adventurer — is IPTN, formerly PT Nurtanio, the state aerospace concern. This assembles helicopters and fixed-wing aircraft under licence from foreign manufacturers.

Dr Habibie started Nurtanio after returning from 12 years with Messerschmitt-Boelkow-Loth (MBB) in West Germany. He used his personal contact with President Suharto to get funds. This relationship dates back to the 1960s, when the Indonesian leader was army chief in Sulawesi province where Dr Habibie lived.

His abrasive style, which he concedes has landed him in hot water more than once does not go down well with some of his more conservative Javanese colleagues, who prefer intrigue and shadow-boxing to confrontation. Dr Habibie is also unpopular with some sections of the armed forces and domestic airlines who are unhappy at orders from the President that they should buy from PT Nurtanio and PT Pal rather than abroad. But Dr Habibie, a devout Moslem in spite of his jet-setting lifestyle, seems to delight in his role as a catalyst among Indonesia's deeply conservative ruling elite. "If the Chief of Staff decides to buy foreign fighter aircraft, I will be knocking on his door looking for a technology transfer," he says. In other ways Dr Habibie is surprisingly conventional. He believes passionately, for example, that Indonesian industry must be protected against the full force of foreign competition until it is ready to stand on its own feet.

Yet both IPTN and Dr Habibie's other projects do not appear short of funds. This may be due to his close links to President Suharto, to his own tenacity, or to both. His admirers say Dr Habibie has started an irreversible process which will eventually lead Indonesia into a new industrial age: his critics say that he is too clever by half and will eventually fall out of favour, especially if President Suharto steps down.

Helicopters The company, which employs 12,000 people on a 150-acre site near Bandung, West Java, produces helicopters under licence from Aerospatiale of France and MBB. It has a licensing arrangement with Bell of the US and technical agreements with Boeing and the Japanese. He used his personal contact with President Suharto to get funds. This relationship dates back to the 1960s, when the Indonesian leader was army chief in Sulawesi province where Dr Habibie lived.

PROFILE: DR YUSUF HABIBIE

Flying against the wind

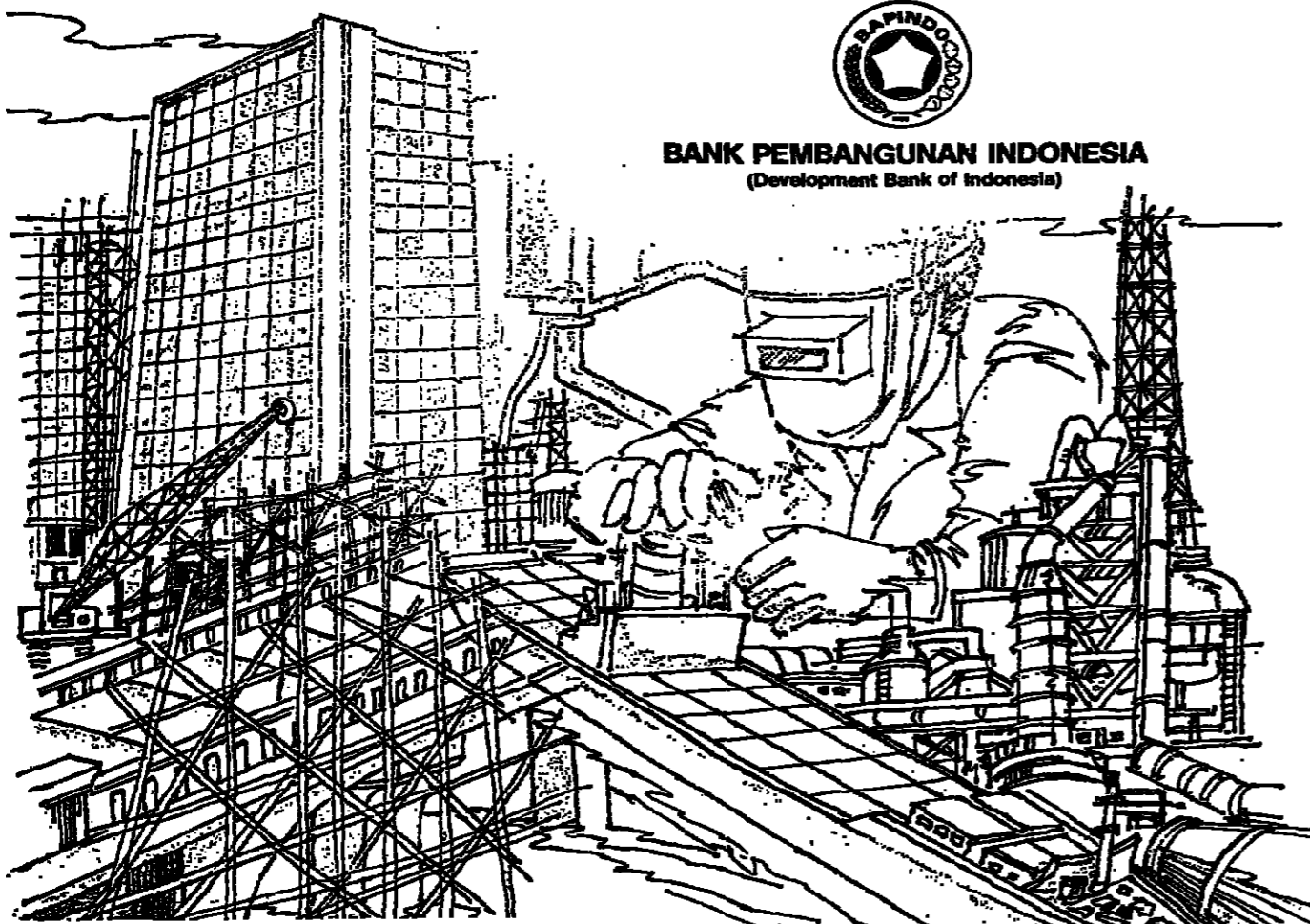
DR YUSUF HABIBIE, either enigmatised or Indonesian prodigy, depending on your point of view, put the question many are asking as the country faces its bleakest economic outlook for years: "Why is Habibie launching such an expensive airplane when the budget has been cut by 7 per cent?"

Dr Habibie, who is Minister of Research and Technology and self-appointed guardian of Indonesia's industrial ambitions, was referring to plans for the country's aircraft industry to research and produce a revolutionary aircraft powered by propfan engines in co-operation with Boeing. "I have been planning this for five years," he said, twirling in his executive chair at the head of a 15 ft table crammed with model airplanes. "I am not going to throw all my plans out of the window just because we are in a tight spot."

Many would argue that plummeting oil prices place Indonesia in more than a tight spot. On the contrary, replies Dr Habibie. It reinforces his view that the country cannot rely on its natural resources and must push ahead with plans to create an advanced industrial base through acquisition of high technology.

The 49-year-old former aeronautical engineer has come a long way in a short time. He is chairman of the government-controlled Board of Strategic Industries; he runs the free zone Batam island, off Singapore; he is in charge of PT Pal, the state shipbuilding company based in Surabaya, East Java, and he controls state railway construction, the experimental nuclear reactor programme and a number of other enterprises ranging from telecommunications to weapons systems.

Dr Habibie also runs PT Pindad, which produces a range of guns from light arms to heavy weapons, and he is said to be aiming to produce high-technology armaments. Late last year he signed an arms



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Although they are a small minority among Indonesia's 165m people, the Chinese wield considerable economic and political influence.

# Chinese still a group apart

MAINTAINING a sense of unity and fierce national pride among Indonesia's 165m people has been perhaps the greatest achievement since independence in 1945. Rebellions have come and gone but the overall integrity of the state under the national slogan of "unity in diversity" has been maintained.

But the Chinese in Indonesia remain a group apart, often resented by the majority for their economic power and influence. The Chinese in turn are resentful of government restrictions on their activities and insecure about their position in society.

Estimates of the number of Chinese in Indonesia vary between 2.5m and 5m. Most are from southern China and speak Hakka, Hokkien or Cantonese dialects. They fall into two groups: the "Totok", or pure blood Chinese, are mainly recent immigrants who arrived in Indonesia this century and still use Chinese as their first language. The *Peranakan*, or mixed blood Chinese, are descendants of earlier settlers. Many speak no Chinese, have adopted regional customs and are often indistinguishable from the local people.

Even modes of dress and cooking have blended with local conditions. The *Peranakan* cuisine is one of the most delicate and appetising in the world, a luxurious mixture of the best of China and the best of Indonesia and Malaysia.

The Dutch colonialists must take much of the blame for encouraging indigenous anti-party towards the Chinese. In colonial times the Chinese were often used as the administrators of Dutch policies. Quick to adapt, many Chinese went to Dutch schools and became fluent in the language. The Dutch exploited racial differences and gave the Chinese considerable economic power.

That power has increased over the years. As much as 50 per cent of the trading sector is in Chinese hands. Chinese are also a major force in banking and financial services and are the main investors in Indonesia's industrialisation programme.

In the 1950s the Chinese were moved out of the villages to lessen their economic influence at the basic levels of society. In 1965 an attempted coup was blamed on the Indonesian Communist Party, acting in collusion with China. The Chinese were looked on as fellow travel-

ers. Many were killed in an anti-communist pogrom.

Some fled the country and others burnt their sacred ancestral records in efforts to disguise their identity. Most Chinese temples were closed. Public display of the Chinese script was forbidden and the Chinese were encouraged to change their names.

Thus Indonesia's most famous Chinese, the business tycoon, Mr Liem Sioe Liong, officially referred to within the country as Soedomo Salim, a combination of Liem or Lim and the Chinese word *san*, meaning three. (Liem and his two brothers are business partners).

### Schools ban

No Chinese schools are allowed, and various constraints are placed on everyday life. Often Chinese find it difficult to enter state universities or find the path to promotion blocked in many state enterprises. Some complain that they are forbidden access to sensitive areas, such as computers.

Many find it difficult to raise loans from state banks or arrange cheap lines of credit. As a consequence, few enter state service and the community has tended to resort to its own re-

sources, suspicious of outsiders.

Through the 1970s there were several anti-Chinese riots, not only in Jakarta but also in the hill city of Bandung and in Ujung Pandang in Sulawesi. Such riots were often stirred up by disgruntled local officials. Some of the more radical Muslim groups are in the forefront of outbreaks of anti-Chinese feeling and the Chinese have been used as a convenient scapegoat for channelling Islamic dissent.

But the Chinese would not have amassed their considerable economic position without fostering close links to those in power. President Suharto is a close business associate of Liem Sioe Liong and their relationship goes back more than 20 years. Mr Suharto's brother, Mr Sudwikatmono, is a partner in many Liem enterprises.

Other leading Chinese, like the timber and oil support services magnate Mr Bob Hasan, or the head of the giant Astra Group, Mr William Soeryadjaya, have nurtured strong ties with the ruling group.

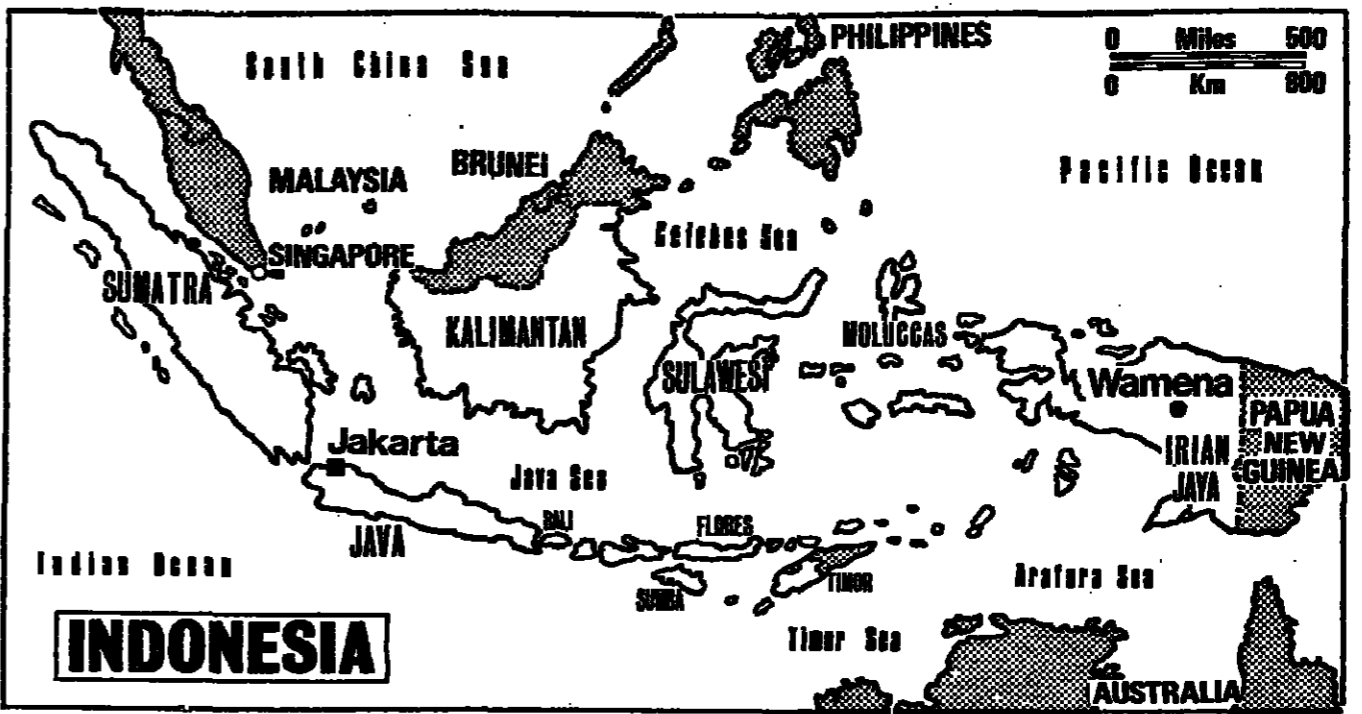
Native or *Pribumi* businessmen often complain that government officials favour the Chinese with licences and important contracts in return for substantial cash rewards.

Though there has been no Chinese minister in Suharto's New Order Government, Chinese exercise a behind-the-scenes political influence. The Centre for Strategic and International Studies is a military backed think tank. Most staff are Chinese. Its head, Mr Liem Eian Kie (locally known as Jusuf Wanandi) often acts as spokesman for Mr Liem Sioe Liong. A brother is in charge of many of the military's business enterprises.

The Government seems to realise the dangers anti-Chinese feeling poses: investment from the Chinese community is crucial to the success of economic plans. The armed forces chief, General Benny Murdani, recently ruled that what he called the divisive terms of *Pribumi* and non-*Pribumi*—separating the Chinese from the rest of society—should not be used.

But suspicions persist on both sides. It will take a long time before this legacy of Dutch rule finally disappears.

Kieran Cooke



Indonesia is the world's fifth most populous nation: Java is the most densely populated and developed island on the archipelago

# Power rests with the Javanese

"A SPECIAL meeting of President Suharto and some of his key advisers was held at the palace today. Dukuns or spirit doctors were consulted, various portents and signs, lightning strikes and storms were discussed. Special numbers were chosen."

Such Lear-like news is never released. Yet Indonesian political and social life does at times seem to belong more to the world of symbolism and ceremony than to more pragmatic, earthly realms. It is what one writer called the X Factor of Indonesia—the world of the Javanese.

Terms are confusing: when Indonesians talk of the Javanese, they refer mainly to those who come from central Java, from the richest land on the most fertile island in the world. The Javanese describe their land as the nail from which the rest of the universe hangs. It contains some of the world's more spectacular scenery with intricate rice terraces, perfectly shaped volcanoes, lakes, orchards and market gardens. Around the ancient courts of Solo and Jogjakarta the elders still sit in their ornate costumes, whiling away their time under the sacred banyan trees.

Javanese are acutely conscious of their background and proud of their rich culture and courtly graces. Their dance, drama and music is an intricate blending of various artistic forms. No voice should ever be raised in anger, self-control must be maintained at all times.

The Javanese language, spoken in various high and low forms, is circumlocutory and full of obfuscation. Most Javanese are only nominal Muslims. Ancient Hindu and animistic beliefs play a far more important role in their lives than the Koran.

Dukuns combine the roles of folk healer and soothsayer: when ill even the more sophisticated Javanese will first go to a dukun and only later to a doctor. Dukuns are also frequently consulted to advise on dates for marriages or contract signings.

The Javanese dominate government. Mr Suharto was born of a farming family close to the royal court of Jogjakarta. Mrs Suharto is related to the Mangkunegaran clan of the royal house of Solo. A volcano erupted.

Many of the president's closest advisers come from central Java—General Benny Murdani, the armed forces chief, is a catholic from Solo. Retired General Soejono Humardani, the acknowledged palace dukun, is also from Solo.

The ever-smiling figure of Mr Suharto fits perfectly into the Javanese ethos. He has *rahayu* the mystical power, the divine blessing and an ability to turn chaos into order, poverty into prosperity. He is cautious but firm; he looks after those who are loyal, but is quick to isolate those who disagree.

The ceremonial that surrounds the President, the way he always travels with a sizable court of ministers and senior officials, recalls the time of the old *rajas*. Mr Suharto uses Javanese when addressing those closest to him, not Bahasa Indonesia. He has power — and power among the Javanese is respected.

### Interpretation

But such power can be fragile. Javanese are deeply aware of elements that might portend change. The old palace, or kraton, in Solo was recently destroyed by fire. A sacred banyan tree in the court complex suddenly crashed down. Lightning struck the ancient Buddhist temple at Borobudur. A volcano erupted.

Javanese were quick to interpret events; perhaps significant changes were about to take place. Perhaps Mr Suharto was finally losing his *rahayu*. Just how important such things are in government is difficult to gauge. Indonesia is

a complex country and in many respects is run in a practical manner. Mr Mochtar Lubis, an author from northern Sumatra sometimes critical of the Government, feels that the main problem with the traditional Javanese view is one of *asal bapak senang* — "as long as the boss is happy." The ruler is often shielded from criticism, while various events that might displease him are not mentioned.

Others feel the Javanese are too introspective and too ethnocentric. They are suspicious of outsiders. "The Javanese are the ones who want to black out foreign newspaper articles that might be offensive. They are not receptive to outside ideas, feeling that they have found the perfect way," said one critic.

Yet there are some notable exceptions to this view. Men like Dr Ali Wardhana, the economics minister and from Solo, are truly international in their outlook.

Indonesia would hardly have developed as quickly as it has if it was not responsive to other ways of life. But the Javanese elite remains a secretive group; only they really know just how important the X factor is in Indonesian political life.

Kieran Cooke



Indonesia's most famous Chinese, the tycoon Liem Sioe Liong (facing camera) in discussion with Dr Ali Wardhana, Indonesia's Minister for Economic, Financial and Industrial Affairs

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# INDONESIA 12

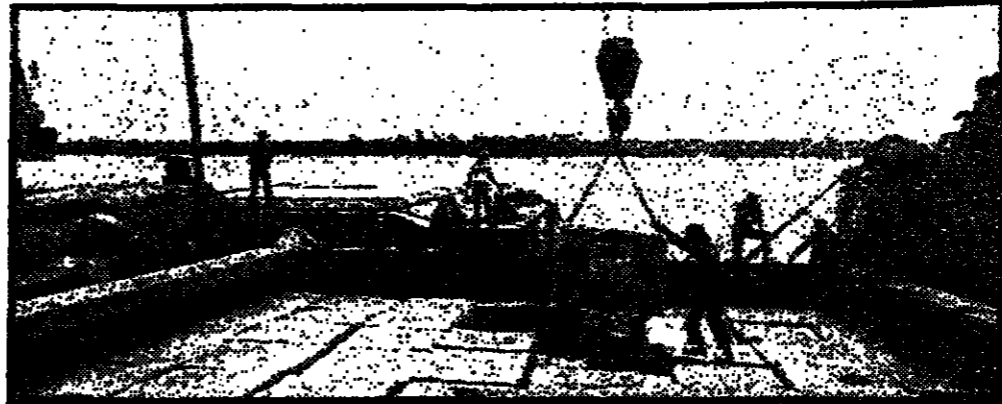
# Natural Resources

## When you ask for beer, ask for Bintang.

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Agriculture is the star of the Indonesian economy, and self-sufficiency in food is now a reality, reports Kieran Cooke



Tree-grown rubber being loaded on to cargo ship from a barge at the port of Belawan. The Government is seeking more investment in plantation crops, such as rubber

## World's leading plywood supplier

OUT ON the remote island of Seram, in the east of the Indonesian archipelago, stands one of the world's largest plywood mills with a 16 line production facility capable of turning out a massive 40,000 cubic metres of plywood each month. The mill is owned by the Djajanti group, one of Indonesia's largest timber conglomerates, run by Mr Burhan Uray, a flamboyant local Chinese businessman. The Seram factory was opened with great fanfare by President Suharto in late 1983. But today much of the machinery at the factory lies idle. The Djajanti group has accumulated debts estimated to be more than US\$220m and only a salvage operation by two of Indonesia's major state banks — the main creditors — has kept some production at Seram going. The problems of the Djajanti group are shared by many other companies in the Indonesian plywood industry, where over-rapid expansion has led to falling prices on the world market. Ten years ago there were only two plywood mills in Indonesia. Now there are more than 100 with another 25 under construction. Production last year was about 4m cubic metres, making Indonesia the largest plywood supplier in the world with about a 70 per cent share of the market. The spurt in production came in 1981 when the government decreed that exports of whole logs be gradually phased out, stopping altogether at the beginning of 1985. In the interim, only those companies which invested in downstream industries such as plywood and sawn timber mills would be able to continue the lucrative whole log export business.

### Expansion

The government also encouraged downstream expansion by leaning on state banks to give generous building loans to the timber companies. While the number of mills increased dramatically, little attention was given to marketing or actual export potential of plywood products. Other producers, such as the Philippines and Malaysia, accused Indonesia of plywood dumping and of driving down prices. In 1982, before the Indonesian industry expanded, the plywood price was about \$320 a cubic metre. Now, with slight variations depending on quality, the price fluctuates between \$220 and \$270 per cubic metre. Despite low labour costs, many Indonesian companies have gone bankrupt while about 2m cubic metres of production capacity is not being used. Over the past year, however, the industry has made considerable efforts to reorganise itself. The weaker, less financially sound companies have gone out of business, and the government has told the banks not to give any more loans for plywood production expansion. The government has also encouraged the formation of a joint marketing body to control export supply, and ultimately it is hoped, a new firm. PT Fendi Indah, operates as a trading house for plywood, managing ready stocks for spot sales in major consuming countries like Japan and the US. In a further effort to control prices, plywood is likely to be introduced as the next item after rubber and coffee on the newly opened Jakarta commodity exchange. Exports have risen sharply with plywood challenging rubber and coffee for the number two position in Indonesia's export earning league. The value of exports has gone up from only \$163m in 1980 to \$530m last year. This year their value will probably exceed \$1bn. China, with which Indonesia recently re-established direct trading relations after a gap of nearly 20 years, has now become the largest export market for Indonesia's plywood, followed by the US and Japan. Sawn timber exports have also increased substantially from \$85.8m in 1978 to \$234m in 1985. But the future poses many problems. Supplies of tropical hardwood trees for plywood production are dwindling. Most of the easily accessible areas along river banks, or near existing logging tracks, have already been logged out. Critics say government targets of wholesale expansion of the timber industry over the next five years are not only unrealistic but dangerous. One estimate is that less than 10 per cent of land cleared by people are overwhelmed by the size of Indonesia's forests. But they don't realise just how delicate tropical forests are — you ruin one part and all the rest is affected, perhaps permanently, one environmentalist warns.

### Plantations in cash problem

INDONESIA'S planners have a well-deserved reputation for pragmatism, often seeming almost too conservative in their approach. But in the plantations sector, events have gone badly wrong with targets proving hopelessly optimistic and schedules only rarely being realised. In the 1970s the Government decided to make a big push to improve output in the plantations sector. For years, plantations had been largely ignored. This was due, in part, to the growing abundance of oil revenues. Little attention was paid to other sectors as what have been called "the drug years" of the oil boom continued. But plantations also recalled the long years of Dutch colonial rule: they symbolised a much-despised system of indentured labour and exploitation. Only recently, with the downturn in oil prices, has the Government emphasised the importance of plantations, rehabilitating and developing large tracts of land in various parts of the archipelago. Most plantations are run by the state. Some, particularly in Sumatra, have successfully rehabilitated neglected estate land and are making profits. Others continue to make losses. Poor management and planning, plus debt obligations to state banks on loans running at 16 per cent, have caused serious difficulties in the state plantations; many of the state companies, called PTPs, have become too big and are unable to find sufficient funds for costly crop improvement. The Government had hoped to alleviate some of the burden carried by the state plantations through its Nucleus Estate Scheme. The scheme, conceived in the mid-70s and encouraged by President Suharto, aims to establish a network of plantations where 80 per cent of the land will belong to the smallholders and 20 per cent to the developer. The developer finances land clearance and assists in much of the planting; he also buys in the produce. Smallholders account for the bulk of cash crop output. Shortage of cash plus a lack of the latest technical knowledge has tended to lower productivity among the smallholders. Quality has also suffered. Costs are increased by transportation and marketing difficulties. **Difficulties** The Nucleus Estate Programme was seen as playing an important role in rationalising the system and bringing smallholders into a series of more efficient and more productive units. Nucleus estates were also seen as a method of soaking up employment. Nearly 3m new workers are coming onto the Indonesian labour market every year. The Nucleus Estate Scheme also fits into the Government's transmigration programme under which people are moved out of the chronically overpopulated areas of Java and Bali onto land in other islands. Originally, transmigration concentrated on providing land in the more remote regions for farmers to grow rice. Now the emphasis has changed: plans are for more and more transigrants to be put into nucleus estate units. But the Nucleus Estate Scheme has run into many problems and, in the last five-year development plan, less than 50 per cent of estate tasks were met. Shortage of funds has been the main obstacle. It is calculated that by the next five-year development targets are to be met nearly \$6bn will be needed. The World Bank, the Commonwealth Development Corporation (CDC) and other international institutions have pledged to help with about a third of the funding costs. With the serious financial constraints brought on by the drop in the price of oil, which still accounts for more than 60 per cent of Indonesia's foreign exchange earnings, it is unlikely that the Government will be able to shoulder the rest of the financial burden involved in the Nucleus Estate Scheme. Originally, the Government hoped for considerable help from the private sector — both local and foreign — in developing the Nucleus Estate Scheme. This had not been forthcoming. Investors have balked at providing funds for a system over which they would not have entire control. Plantation development is a long-term business. Indonesian investors traditionally look for short-term profits and are wary of committing large amounts of cash to what is not only a financial but also a social programme. Chinese investors are particularly shy of such a scheme. Many feel that the political climate could change and their plantations lands might be seized by a new regime unkindly disposed to large Chinese landholdings. The whole subject of landholding is an emotive issue in Indonesia. Since the downfall

CONTINUED ON PAGE 13

## Big success in farming

IN THE 1960s, the late 1960s and early 1970s the spectre of famine haunted Indonesia. Food queues were a common sight. Riots often broke out as the hungry demonstrated against government inefficiencies. Today, though the majority of Indonesia's 185m people are still poor — with per capita income well below US\$ 600 per year — few actually starve. Bringing about a large measure of food security and self-sufficiency is perhaps the greatest single achievement of the Suharto government's 18 years in power. It has also played a vital part in maintaining peace in the country and sustaining President Suharto's political control. Agriculture remains the dominant sector of the Indonesian economy, accounting for about one-third of GDP and employing 55 per cent of the labour force. Indonesia has a total land area of 1,919,443 square kilometres, of which about 12 per cent is cultivated. Three islands — Java, Madura and Bali — together make up 40 per cent of the country's cultivated land, though they only represent 7 per cent of total land area. Production of rice, the staple diet, predominates with 38 per cent of cultivated land area given over to paddy. It is estimated that up to 30m farmers, many working holdings of less than half a hectare, are involved in rice production. In 1976 production was 11m tonnes but by last year it had more than doubled to 26.3m tonnes. Indonesia, which as recently as 1980 was the world's largest rice importer, had become self-sufficient and even a potential rice exporter. The country's success in rice production according to Mr Suharto, "is not a miracle, but the hard work of a nation carried out diligently, based on a realistic development plan." Rice production was treated as a priority from the late 60s onwards and during the first and second five year plans in the 70s, the agricultural sector received more than 20 per cent of Government development expenditure. Up to 1984 it had also received nearly \$2bn in foreign aid. A mass guidance programme called Bimas was launched to educate farmers in new production techniques and to introduce the new "Green Revolution" rice strains. Intensification and extensification were the buzz words of the agricultural plan-

### Rice stocks

Abundance has, however, brought its own problems. Bulog now has stocks on its hands of 2.5m metric tonnes. Mr Suharto is known to favour holding a large rice stock to guard against sudden climatic changes and the politically damaging prospect of a resurgence of food shortages. Bulog had to borrow 1,000 metric tonnes (\$1.7bn) in subsidised loans from state banks last year to finance its operations, and warnings had been given of bankruptcy without direct intervention by the Government. In his budget speech earlier this year Mr Suharto said the Government would in future shoulder more of the rice-buying burden. In addition, many credit schemes have been phased out and more stringent quality controls on rice have been introduced. This has not pleased the farmers, who have seen the price for their paddy drop over the past 12 months. Current Government plans call for a 2.5 per cent average annual increase in rice production over the next five years. Other crops such as corn, soybeans, cassava and vegetables have registered impressive increases over the years, if not so dramatic as that of rice. In 1984 cassava production rose 22 per cent to 14.2m tonnes while corn production went up by 5 per cent to 54.4m tonnes. Sugar production has quadrupled over the past 10 years and all imports have now ceased, but prices continue to be considerably higher than those on the world market where over supply in recent years has led to steeply declining returns for producers. Government policy is to raise production of secondary food crops, like cassava and corn, and to pay greater attention to cash crops in the plantation sector such as rubber, coffee, cocoa and palm oil. The fourth five year plan, which began last year, aims at achieving an annual rate of growth of 3 per cent in the agricultural sector compared with an overall target of 5 per cent GDP growth each year. Yet, although rice production is to continue to expand — albeit at a slower pace — there are worries that with declining revenues from oil and gas exports the Government will no longer have adequate funds to finance the necessary intensification and extensification schemes for further growth in other crops. There is particular concern at the slow level of development in the plantation sector where massive investment is needed if government targets are to be achieved. The government is making a big effort to encourage agro-based industries. Fertiliser production has shown large increases up from less than 100,000 tons in 1969 to more than 4m tons last year, but the growth of other agriculture-related industries has faltered. Fisheries enterprises in particular have not come anywhere near to achieving their potential, and many firms involved in schemes such as shrimp breeding have gone bankrupt, mainly because of lack of financial back-up. Overall, therefore, over the past 15 years agriculture has been the star performer in the Indonesian economy. In 1984, growth in the sector was 10.2 per cent. Few expect those heights to be reached again. However, the government's number one priority of food self-sufficiency has been achieved. The land in most of the highly productive areas has absorbed all the people it can take. New priorities, like industrialisation, will now take over.

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Indonesia has vast natural resources and rich potential for commodities, but only in the last decade has it begun to exploit them.

'An awakening colossus'

NAME a dozen commodities and Indonesia is at the top, or very near the top of the league table.

In the past two years it has become the world's leading plywood exporter. It is also the second largest exporter of tin and is becoming increasingly significant in a whole range of metals.

Indonesia's commodities were the object of bitter battles between rival colonial powers and traders over the centuries. Yet ever much of the past 30 years many commodities have been ignored.

It was also a reflection of the growing importance and wealth that oil resources were bringing to the economy.

The government is now making a determined effort to increase rubber and oil palm production. By 1988, plans are to increase rubber and palm oil production to 1.5m tons and 2.5m tons respectively.

So far progress on increasing rubber output has been relatively slow with production increasing from 838,000 tons in 1970 to an estimated 1.14m tons last year.

Palm oil output, encouraged by expanding demand and higher prices in the 165m-strong domestic market, has jumped from 217,000 tons in 1970 to an estimated 1.2m tons in 1985.

Cocoa production is another priority: government targets look for a tripling of output from 18,800 tons in 1984 to 56,000 tons in 1988.

tional growing areas of north Sumatra, but also in South Sumatra, Sulawesi, the easterly province of Irian Jaya and in Kalimantan on the island of Borneo.

Crop hectares of palm oil are to be increased from 494,000 in 1983 to just under 1m in 1988. Government targets call for an additional 945,000 hectares of rubber to be planted over the next four years.

So far progress on expansion has been slow. There is a shortage of ready investment for the costly operation of land clearing and planting.

Restrictions Foreign investors have been cautious about putting their money into plantation crops because of land title restrictions.

There is still a long way to go to make Indonesia's commodity sector efficient. Productivity still tends to be low.

Smallholders account for the bulk of cash crop output. They produce 74 per cent of Indonesia's rubber, 94 per cent of its coffee and 93 per cent of its tobacco.

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crop maintenance and expansion of planted lands. Infrastructure is often inadequate. The size of the domestic market is also a restraint on some commodity earnings.

Because of shortages and rapidly rising prices the government was forced to ban all exports of crude palm oil (CPO) in 1984.

Some producers complain that because of government directives aimed at ensuring adequate supplies of CPO on the domestic market they are unable to meet many export requirements.

Malaysia has often expressed its concern about Indonesia's ambitious plans for commodity expansion. But though stepped-up rubber production in Indonesia has forced many Malaysia plantations to go into other cash crops.

Coffee and pepper are the two bright spots in the Indonesian commodity scene at the moment. Coffee exports, buoyed by rising prices on the world market, because of shortfalls in

the harvest in Brazil, are likely to reach US\$900m this year. Pepper exports are also climbing rapidly, again encouraged by higher world prices.

Price falls While plywood production has increased sharply in the past four years, world prices have dropped back. Many other producer countries blame the too rapid expansion of the Indonesian timber industry for depressing prices.

Metals have suffered similar problems as world prices continue to fall. The single largest foreign investment in Indonesia—the US\$1bn Inco Canada nickel mine in central Sulawesi—has announced it will close down its operations for a time this year in an effort to cut losses.

Rubber exports went up by 20 per cent in volume but increased by only 1 per cent in value. In 1984 the value of non-oil and gas exports had increased by more than 17 per cent. The commodity colossus might be awakening but there is still a long way to go before all its strength can be used to benefit the Indonesian economy.

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OUTPUT OF COMMODITIES

(Figures in m tonnes)

Table with 5 columns: Commodity, 1970, 1984, 1985, 1988 (target). Rows include Rubber, Rice, Palm oil, and Coffee.

Source: Indonesian Government statistics.

INCOMEX: INDONESIA'S LIVELY NEW COMMODITY EXCHANGE

Attractive prospect for traders

INDONESIA'S usually heavy-handed regulators must have overlooked the fledgling commodity exchange, Incomex.

While the stock market and interbank trading are mired in strict controls written by conservative cautious government administrators, Incomex is remarkably free of constraints.

If there is to be a take-off anywhere, it will be in Incomex. This is only right: Indonesia is a world-class exporter of dozens of commodities—coffee, rubber, tea, plywood, palm oil, cocoa, pepper, and other spices.

But many of these are marketed on prices from London, Kuala Lumpur and Singapore. The commodities themselves are often sold, illegally, on the Singapore and Kuala Lumpur exchanges.

A domestic commodity market would establish local prices, and remove the middleman cost associated with trading on the commodity bourses of nearby Singapore and Malaysia.

In January, Incomex inaugurated trading of its second item, coffee. The first rubber, was listed last April. Trading of rubber has not boomed, the market recording a volume of only 2,000 tonnes in its first eight months.

Coffee listing This is due to two factors. The international rubber market is depressed, with prices very low, and the market is not offering futures contracts. The market administration is keen on futures, but the regulators are cautious, and for the time being only physical contracts are traded.

Coffee was brought on to establish a local price for the farmers who depend on reports from the London exchange via BBC on their scratchy, short-wave receivers to figure out at what price they should sell to traders.

The new coffee listing was timely. With the failure of half of Brazil's coffee crop, international coffee bean prices have shot up and demand is especially strong. The last Indonesian crop has already been picked, and most delivered if not committed, so there is no coffee available to be traded on the market.

The new crop is only now being harvested, and in six months or so there should be some trading action. Even then, it will not boom, as many traders have committed themselves six months forward.

But this is incidental. Incomex is seriously planning on another listing by the end of the year and, more importantly, opening up futures contracts, possibly for both rubber and coffee. The dozens of traders already joining the twice-weekly trading sessions in the central Jakarta market building say they are keen.

The next listing has not been revealed, but best guesses are plywood, cocoa, palm oil and pepper are other possibilities. As the Government modernises its communications and inter-island shipping, the market can only become more attractive to the leagues of commodity traders, plantation operators and small farmers. While trading is barely a year old, it will certainly bring to life the sleepy stock and commodity exchange building.

Ian Williams

Plantations face cash problem

of the Dutch colonial system, any new foreign intrusion into the country is viewed with suspicion. Foreign companies are not allowed to hold title to land. This must be held by a national. Nor can land be used as collateral to raise bank loans.

President Suharto himself seems adamant that foreigners will not hold land title though other members of his administration realise that something must be done if plantation targets are to be met. But despite the considerable hurdles a number of foreign companies

Rubber production table with columns for Smallholder, Estate, Total and rows for years 1970-1984.

Source: Indonesian Association of Rubber Producers

Main trading partners table with columns for Exports to and Imports from, and rows for various countries.

Source: Central Bureau of Statistics

Timber production table with columns for Production, Export, Value and rows for years 1970-1984.

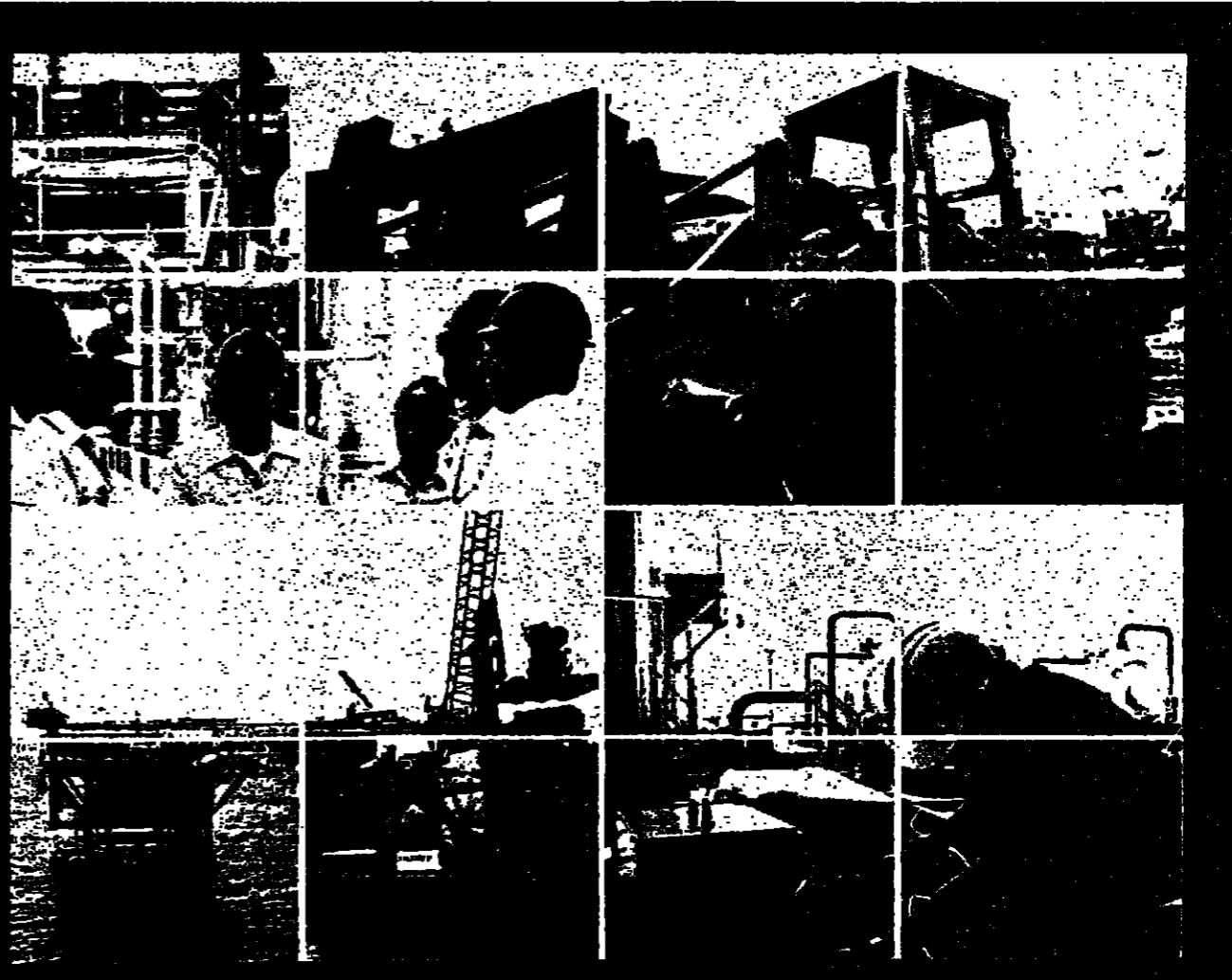
Source: Ministry of Finance



Latex production in SUMATRA

continue to operate: London Sumatra, owned by the Harrison and Crossfield group of the UK, runs palm oil, rubber, tea and cocoa plantations, mostly in North Sumatra. Socfin, the Belgian plantations group, is in partnership with the Government in plantations totalling 47,000 hectares, again in North Sumatra. Both London Sumatra and Socfin (under the local company, Socfindo) have made handsome profits in recent years, particularly during the boom in palm oil prices in 1984.

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Much of the island of Kalimantan remains inaccessible, but it is rich in oil, gas and timber resources. Alain Cass explores new developments.

# A world apart in Kalimantan

THE CALL it Beverly Hills, Balikpapan, which is a bit of an exaggeration but it makes the point. The locals call it, more appropriately, *Kampung Amerika* or American Village.

It is, in fact, a world apart for expatriate oil workers and their families, set amid manicured lawns, swimming pools and tennis courts on the hills above the boom town of Balikpapan in East Kalimantan, headquarters of the province's petroleum industry.

This ethereal world overlooking a harbour of oil flares and supertankers, sprawling hotels and supermarkets belongs to Unum Oil of the US and is matched elsewhere in the town, by pitched, though not quite so luxurious, compounds owned by Total of France and Hucco of the US.

Inside the compound expatriates are cocooned from the outside world. Husbands commute to the rigs offshore by helicopter, while wives and children make the best of their self-imposed isolation.

The compound has its own hospital, fire brigade, video library and bowling alley. Expatriates can enjoy imported New York steaks, watch Rambo on television or cook a soufflé in state-of-the-art kitchens which come with each luxury bungalow. Every few weeks the families emerge for a quick dash to Balikpapan airport—Indonesia's second busiest—and a free flight home to the US.

For the French oil workers the delicatessen at Balikpapan's only luxury hotel has started to sell imported foie gras and champagne at \$23 a bottle.

Although the long-haired Indonesians wearing jeans and

sun-glasses standing around Balikpapan's street corners or cruising around town in gas-guzzling American cars may secretly resent the way the other half lives, the government certainly does not.

The foreign oil companies operating in Kalimantan play a vital role in keeping the oil flowing and the revenue coming in—especially now that world oil prices have taken a nose-dive, seriously impairing Indonesia's economic development efforts.

Kalimantan is the Indonesian territory comprising roughly the southern three-quarters of the giant equatorial island of Borneo. It is the third largest island in the world (if you exclude Australia) after Greenland and New Guinea and is immensely rich in natural resources including oil, gas, coal,

timber, gold and uranium.

Kalimantan makes up nearly 30 per cent of the land area of Indonesia but accounts for only 4 per cent of the population. It has no railways and only three decent roads in all four provinces. The vast majority of its territory is inaccessible jungle and the main lines of communication are rivers and small airlines which service the interior. Even major population centres, like Palangka Raya, capital of central Kalimantan, are only accessible by air or river.

**Ethnic groups**

Kalimantan remains largely inaccessible and therefore mysterious. Its often impenetrable forests abound with wildlife such as clouded leopards, bears, hundreds of species of exotic birds and the rare and comic proboscis monkey.

Beyond the boom towns, such as Balikpapan and Samarinda, capital of East Kalimantan and headquarters of the world's largest plywood industry, there are three basic ethnic groups: the Chinese, descendants of migrants from the Chou dynasty; coastal Malays, predominantly Muslim immigrants who live mostly at the mouths of rivers and in Dayaks, the island's original inhabitants.

The Dayaks, like the Iban in neighbouring Malaysian Sarawak, live along the river banks and in the highlands deep in the jungle. For centuries they lived a life largely unchanged since neolithic times. As the Muslim Malays started to arrive on the coast the Dayaks moved further and further inland, partly because they did not wish to be part of a culture which forbade them to eat their favourite meat—pork.

Progress has made other inroads into their way of life. They were forced to give up headhunting—though not until quite recently—and may now no longer indulge in the local palm wine (tuak) having been forbidden to do so by zealous Protestant missionaries.

The Indonesian government and some local hoteliers have begun to use the Dayaks and their colourful lifestyles centred on their unique *longhouses* to encourage tourism in Kalimantan.

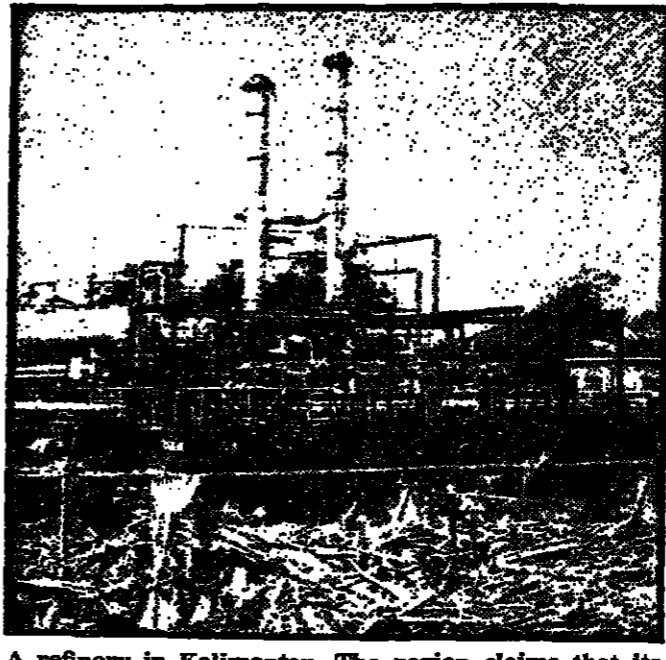
But the island remains, first and foremost, a vast treasury of oil, gas and timber. The authorities in Kalimantan claim that, between them, these three resources provide nearly 35 per cent of Indonesia's foreign exchange earnings.

Pertamina, the national oil company, says that 25 per cent of the state's oil revenue comes from East Kalimantan where the company has its provincial headquarters.

The Balikpapan refinery, one of the biggest in the world, processes 21 per cent of Indonesia's total crude oil output. Further up the coast at Bontang, natural gas, exploited from a huge field of Balikpapan, is converted to liquefied natural gas (LNG) and shipped to Japan. A second agreement is being negotiated with South Korea. Before the recent, dramatic drop in oil and gas prices the Bontang plant processed Indonesia with Rp. 30bn (\$30m) in export earnings per month.

More than 80 per cent of Balikpapan's population of 350,000 is dependent on oil and gas, and the majority of families in the Samarinda area depend on timber for their living.

The growth of the oil, gas and timber industries has provided the local economy with a spectacular boost and attracted tens of thousands of immigrants from the more crowded Indonesian islands, such as Java. Some people, however, worry that a slump, such as the one suffered by both the oil and timber sectors recently, could cause extensive unemployment which the state would not be in a position to reverse, leading to social unrest.



A refinery in Kalimantan. The region claims that its vast resources of oil, gas and timber provide nearly a third of Indonesia's foreign exchange earnings.

# Sumatra, 'the island of hope'

WHEN 55 elephants went on the rampage recently on the transmigration sites near the Lampung-South Sumatra border, the Jakarta Post newspaper reported on February 18:

"The Governor of south Sumatra has already been informed about the situation. Government organisations, including the armed forces, have helped in efforts to drive these big animals back to their own habitat, but each time they were returned."

Mr Saleh Hasan, OKU district head, said: "If the people and their settlements feel harassed today, then what about the elephants in the past? They are mad because their habitat has been taken away from them to make way for settlements."

The news story is, in its way, a very apt commentary on the fabulous island of Sumatra. For if Java has become the mind and power centre of Indonesia, Sumatra is its greatest natural, and possibly human, resource. It has been the task of successive Indonesian governments somehow to harness the one to the other.

Sumatra is so large and diverse, and still so relatively underpopulated, its 34m inhabitants less than half that of neighbouring Java, that it is hard conveniently to categorise.

The first great Indonesian kingdom, Sriwijaya, flourished in south-east Sumatra, around Palembang. In the 17th century, controlling traffic through the Straits of Malacca.

There is a rich and diverse life in Sumatra that is beguiling. It is also an island of great natural wealth, as Jurek Martin reports here.

This trading heritage, and Sumatra's geographical location at the western end of the archipelago, closest to India and the Middle East, and, later, to Europe, still makes it a major contact point with foreign countries. More than half of all Indonesia's non-oil foreign trade is handled by the port of Medan, Sumatra's biggest city.

There is still, however, a big difference between the coastal peoples and the tribes of the inner highlands, the Toba and the Minangkabau, who have retained, to a degree, their own distinctive cultures, overlaid and altered though they may have been by the inroads of Islam, especially in the north and west, and even Christianity, most notable among the Batak.

Sumatrans are renowned as among Indonesia's fiercest warriors. Both the Acehese in the far north and the Batak in the central highlands are celebrated for their resistance to the Dutch. But the streak of independence has never been confined merely to anti-colonialists—in 1958 the Revolutionary Government of the Republic of Indonesia was established in opposition to the Sukarno régime in Palembang in west Sumatra, while in 1976 a brief secessionist movement broke out in Aceh.

Some of the Indonesian Army's most distinguished military officers—most obviously, if controversially, Gen Abdul Haris Nasution—are from Sumatra.


This strong sense of identity, even if often fragmented, has always presented a problem to the hierarchy in Java, though probably not as great as the imperative to make the most of Sumatra's natural wealth. After all, Sumatra is generally known throughout the nation as "the island of hope, the island of the future." Much of that hope lies in marketable commodities.

It was, in fact, the Dutch who first sought to begin to kill two birds with one stone by promoting migration from overcrowded Java to Sumatra earlier this century. Since then, the Indonesian Government's transmigration policy has taken the process much further.

Since the late 1960s, a total of more than 650,000 families, or well over 3m people, have been moved from Java, the majority to south and central Sumatra and to Sulawesi.

It has not always proved an easy adjustment for the wet rice growers of Java, and Sumatra is littered with transmigration

CONTINUED ON PAGE 15




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# Success for grass-roots aid programme

WHEN AUSTRALIAN David Boyce first arrived in Kota Bangun, a sleepy, waterside settlement, perched on the banks of the Mahakang river, he had the only motorcycle in town.

Kota Bangun, situated at the heart of the ancient kingdom of Kutai, was typical of hundreds of villages in Kalimantan, subsisting on primitive agriculture, fishing and basic trade. There was no electricity, no running water, no roads, no health care to speak of, and an alarming child mortality rate.

Boyce, who had been appointed chief field officer by what was, at the time, West Germany's biggest overseas technical aid project, lived on one of five motor river boats built so that the team could penetrate the vast river system which cleaves its way through the endless mangrove swamps and jungles of the province.

Seven years later, Boyce's party frame can still be seen tearing around Kota Bangun on the back of his motorcycle—he has a "chauffeur" and rides pillion—trailing a cloud of dust but his is no longer the only means of transport. Two motor "streets" are alive with the noise of revving Hondas and Vespas, just one of the signs of growing affluence, and of the impact of the West German aid programme and Indonesian government money.

these migrants but has since been broadened to cater to the needs of the native Moslem Kutaiinese and the predominantly Christian or animist Dayak tribes.

TAD which, to date, has spent \$20m in East Kalimantan, have initiated aid projects ranging from nutrition, animal husbandry to hydrology and public health.

In Kota Bangun, TAD have installed, under Boyce's supervision, a 325 kw power station, public water supplies, a mini-hospital and a family planning programme. Beyond the Rural Extension Centre, where locals are coached in animal husbandry, food crop development, fisheries and cropping, TAD has gouged a 700 metre air-raid strip through the jungle. Elsewhere TAD's original team of 32 foreign experts—now down to 12 with five Indonesian assistants, has started courses in embroidery, engine maintenance, and engineering.

"Kalimantan is an enormous area with remote settlements," says Rainer Blank, TAD's deputy team leader in Samarinda, the provincial capital.

"We decided to tackle projects which would help people to survive in the long-run and make them self-sufficient."

This applied chiefly to trans-migrants who are given two hectares of land, a house, some farming equipment, seed and a supply of food for a year by the government.

**Improvements**

Certainly, since TAD's arrival in Kota Bangun, the child mortality rate has dropped considerably, public health has improved, and farmers now use fertiliser where they used not to and, in the process, they have boosted crop production. The local economy, too, is obviously thriving.

"We've helped people set up electronics workshops, furniture manufacturers and blacksmiths. We've given them a start. The rest is up to them," says Boyce.

In 1984 it was decided that all TAD assistance would come to an end in 1989—to coincide with Indonesia's five-year plan—and Indonesians would take over the running of existing projects.

That deadline—which had already been put back three years—still seems optimistic. But, watching Boyce strolling through his "parish," exchanging pleasantries with the locals in fluent Bahasa Indonesian, standing at the entrance of the senior high school, set up with TAD help, or listening to a group of Muslim women being taught the rudiments of modern birth control in the local clinic, Rainer Blank's claim that the project has had a major impact on the area has the ring of truth about it.

**Influx**

The West German programme was begun in the middle 1970s as an integrated regional development project originally linked to helping those among Indonesia's 3.8m people earmarked for voluntary resettlement in Kalimantan from Java—the most over-crowded island in the world.

Since the start of Indonesia's transmigration programme in the late 1960s, a total of 650,000 families have been moved from Java, Bali and Lombok, mostly to Sumatra and the island of Sulawesi, according to the government.

Those who have moved to the more inhospitable terrain of Kalimantan struggle to scratch a living, whether on the outskirts of the oil towns of Balikpapan, or in the beautiful hills around Kota Bangun, where vast tracts of forest have been cleared for the plantation of rice, vegetables or fruit.

The West German programme—originally known as Transmigration Aid Development (TAD)—was launched to help

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Tourism

INDONESIA 15

Asian tourist arrivals

Table with columns for Year (1979-1984) and rows for Indonesia, Malaysia, Philippines, Singapore, Thailand, and Brunei.

Source: Directorate General of Tourism, Indonesia

HINTS FOR VISITORS

What to buy: Indonesian batik is renowned throughout the world. It is perhaps at its best in Yogyakarta where there are many specialised craft ateliers and workshops.

Indonesia has a rich tradition of ceremonial dance, puppetry and religious drama. Wayang kulit (shadow puppet plays) portraying scenes from religious and folk history are performed all over the country while Bali is renowned for its ceremonial dances representing scenes from the sacred Hindu epics, the Ramayana and the Mahabharata.

Food and drink: Though rice-based, Indonesian food is given great variety by the use of many local spices and herbs, fresh meat and vegetables. It is hotter and spicier than Malay or Chinese food.

Sports and entertainment: Indonesia's beaches are excellent for swimming and surfing from but great care should be taken as many of the seas are treacherous and bathing can be dangerous.



The graceful buildings of Taman Mini in Jakarta, the capital of Indonesia. Tourists are drawn by the country's rich variety of festivals, customs, ceremonial dance, religious drama, arts and crafts

Search is under way for tourist's dollar

INDONESIA IS not the most fashionable of places. Reference to it usually brings faintly quizzical expressions and a quick look at the atlas. Some even think its merely part of Bali.

Indonesia is the Cinderella of the South-East Asian area. It is a truly beautiful country with a dazzling variety of cultures and destinations. It stretches across an area wider than the coast to coast of the US. It has more than 13,000 islands — no one has yet determined exactly how many there are.

Yet last year only 700,000 tourists visited Indonesia. Singapore, the island state that appears as a pin-prick on the map compared with Indonesia's vast expanse of territory, had nearly 3m tourists arrivals.

Well over 2m tourists visit Thailand each year, and more than 1.5m visit Malaysia. Even the troubled Philippines is a more popular tourist destination than Indonesia.

For much of the past 20 years Indonesia isolated itself while considerable economic development took place. The Government of President Suharto has often been suspicious of outsiders and up till recently insisted on a former director-general of tourism said in the late '70s: "With our rich natural resources we do not really need the foreign tourists."

All that has now changed.

Falling income from oil and gas exports has brought a new urgency to the search for the tourist dollar. Visa requirements for more than 20 countries have been abolished. Entry into Indonesia is now possible through a number of new "gateways" in Sumatra, Sulawesi and Irian Jaya in the east.

For the first time, foreign airlines are being allowed direct flights into Bali, and the state carrier, Garuda, is offering special "visit Indonesia" airfares allowing stopover trips through the archipelago for as little as US\$300.

Arrivals climbed steadily in the early 1980s and revenues increased. In 1984 tourism was the sixth most important foreign exchange earner, with total income of US\$519.7m. As Mr Joop Ave, the present director of tourism says: "The sleeping giant of tourism is awakening."

Emphasis: Progress has, nevertheless, faltered, and government targets of 1m tourists by the mid 80s have gone unrealised. Marketing has traditionally been a weak area in Indonesia. There is still a chronic lack of readily available information about the country overseas—even in some areas as close as Singapore.

The so-called "paradise island" of Bali now accounts for more than 60 per cent of total tourist arrivals. Australians predominate to such an extent that one cynic, tired of the "cold beer here" and "fresh meat pie" signs, described Bali as the Australian Benidorm. The island and its Hindu culture, is however, still magical and it has shown a remarkable resilience in the face of the tourist onslaught.

It is only one of the many sights of Indonesia however. Slowly people are discovering the pleasures of a trip up the mighty Mahakam River in Kalimantan or climbing the snow topped peaks of Irian Jaya — a province described as the last frontier, an anthropologist's dream world where people live by hunting and gathering as they have done for centuries.

Sometimes, too, incomprehensible things happen. Indonesia now has four luxuriously appointed cruise liners ambling through various points in the archipelago—one of the more ideal ways to travel—but trying to buy a ticket on one of the boats is as difficult as extracting change from the notoriously impetuous Jakarta taxi drivers.

Indonesia is, however, never banal. It offers frustrations and revelations, odd quirks and ready humour. As the Indonesian says, it is all "Campur Campur"—all mixed together to make an exhilarating whole.

Kieran Cooke 'Island of Hope'

Continued from page 14

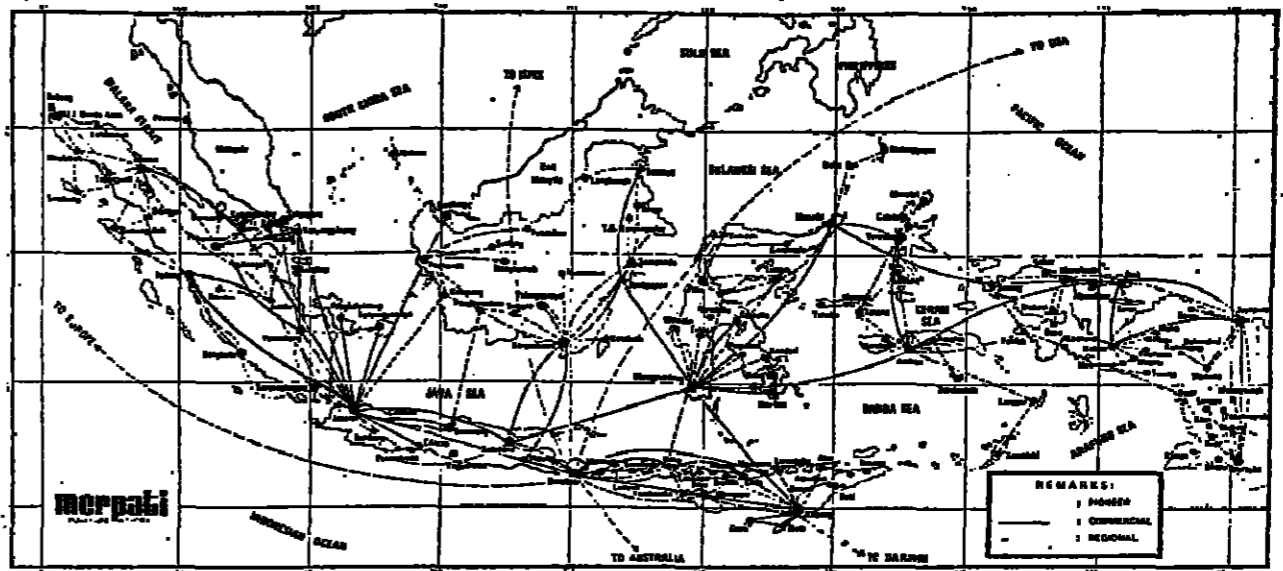
settlements which have not succeeded, as well as a considerable number which have. But the policy is clearly irreversible, if for no other reason, as General Murtadi, the Army chief, has put it, because it helps disseminate knowledge and understanding of the state's ideology and policies — which happen to be largely derived from Java.

Stories, such as that quoted above from the Jakarta Post, suggest that man is winning, but that the jungle is not above fighting back. In fact, Sumatra's legendary wildlife has incurred serious depletion in recent years, both from indiscriminate overcutting of its great timber reserves and from damage from the infrastructural projects that have inevitably accompanied the extraction of natural wealth.

Krakatau volcanic explosion of the last century. Sumatra has, of course, more than coal. It has Indonesia's first and greatest reserves of oil and, now, natural gas; its rubber plantations are second only to Malaysia's (and, indeed, the city of Medan is now home to a number of oil expatriate Malaysian bankers and it is rich in oil palm and cocoa; its timber stock is of incalculable value; it has a variety of minerals as well as traditional spices.

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Advertisement for Elshinta 1368 featuring a large graphic of a skull and text: 'THE SELLING VOICE OF JAKARTA' and 'Elshinta 1368'.

Advertisement for The Mandarin, Jakarta, featuring a map of the city and text: 'The Mandarin, Jakarta. Our location is only one of our strengths.'

# Tips for overseas visitors

HERE, in brief, is a guide for overseas visitors to Indonesia: Time zones: GMT + 7 hours, EDT + 13 hours in West Zone (Java Sumatra, Bali); GMT + 8 hours, EDT + 14 hours in East Zone (Molucca, Irian, Jaya). Climate: Tropical, uniformly hot and humid with monsoon rains from October-April and dry season from May-September.

**Entry requirements**  
Passport: Required by all except for holders of certain documents issued by the UN or Indonesia and certain seamen.  
Visa: Tourists and business visitors do not require visas for a stay of up to two months, a period which can only be extended for USSR and Eastern Bloc passport holders. Special permission from the Immigration Department must be obtained for travel to Irian Jaya or Timor.

**Prohibited entry:** Documents, including passports issued by Israel are not acceptable.  
Health: Vaccination certificates required for yellow fever or cholera if travelling from infected areas. Cholera vaccination and anti-malarial precautions are recommended. All water should be boiled before drinking.

**Currency:** The maximum amount of currency which may be imported or exported is Rp50,000 per person. Exchange rates for foreign currency are generally the same at both banks and money changers. Major currencies of travellers

cheques may be exchanged at most banks, except in the provinces.  
**Customs:** Personal effects are generally allowed entry, with electrical goods subject to customs duty. Importation of arms and ammunition pornography, advertising material printed in Bahasa Indonesia, certain pharmaceutical preparations and cosmetics, built-up TVs and built-up vehicles is prohibited. Films and videos require a permit from the censorship authorities, which can take up to a month. Some other products are subject to testing or registration before import is allowed.

**Air access**  
National airlines: Garuda Indonesian Airlines.  
Other airlines: Cathay Pacific, China Airlines, CSA, JAL, KLM, PT Mandala Airlines, MAS, Merpati Nusantara, Philippine Air Lines, Qantas, SIA, Swissair, Thai International, UTA.  
International airports: Cengkareng International (CGK), 20 km from Jakarta, on Java; Ngurah Rai (DPS), 13 km from Denpasar, on Bali; duty-free shop, restaurant, bar buffet, hotel reservations, post office, shops; Polonia (MES), 2 km Medan, on Sumatra.

**Surface access**  
Main ports: Tanjung Priok, Jakarta (containers); Tanjung Perak, Surabaya; Belawan, on Sumatra.  
Main towns: Jakarta, Surabaya, Bandung, Semarang and Yogyakarta on Java; Denpasar on Bali; Medan and Palembang on Sumatra; Ujung Pandang (Makassar) on Sulawesi

(Celebes); Banjarmasin, Balikpapan, Samarinda and Pontianak on Kalimantan (Borneo); Jayapura on Irian Jaya (New Guinea).

**Hotels:** International-standard hotels have air conditioning and often business centres, where translation and secretarial services are normally available. A service charge is normally added to the bill, so tipping with small change is usual.

**Taxis:** Taxis can be obtained at hotels, airports and railway stations. Standard fares are usual from Bali Airport to major hotels. Metered taxis, which are preferable, are available in Jakarta, but it may be necessary to insist on the use of the meter. Fares are very reasonable. Taxis may also be hired by the hour, which is less expensive for longer journeys. In Jakarta, it can be difficult to hail taxis, so engage one at the hotel and retain it until returning. A 10 per cent tip is usual.

**Car hire:** Car hire, mostly chauffeur-driven, is available in major towns and cities. Except for international car hire operators which accept credit cards, full payment for car hire is made up-front.

**National transport**  
Air: Garuda operates extensive domestic services, including daily services between Jakarta, Surabaya and Medan. Other routes are also served by Bouras Indonesia Airlines, PT Mandala Airlines and Merpati Nusantara.  
Roads: Extensive road network

includes over 150,000 km of roads, 25 per cent of which is surfaced. A 525 km highway links key areas in Jambi and South Sumatra. Although roads are reasonable, distances are great and, except to Bandung, most visitors travel by air outside Jakarta. Secondary roads are frequently impassable in the rainy season.

**Buses:** Express coach services link the main towns. Local bus services are inexpensive, but their use is complicated, they are often crowded, and service may be interrupted in the rainy season. For short distances, three-wheelers called *bejajs* are available.

**Rail:** The rail network, limited to Java, Sumatra and Madura, comprises 8600 km of track, mostly on Java. Java and parts of Sumatra have air-conditioned express rail services with sleeping and dining cars only between major cities. There are several trains daily from Jakarta to Bandung and Surabaya. Ordinary services can be slow, with many stops.

**Trade fairs:** April 22-26, 1986, Construction Indonesia, 1986 International Construction, Building Municipal and Public Works Exhibition, Jakarta; May 6-10, Mining Indonesia, 2nd International Mining and Minerals Recovery Exhibition, Jakarta, September 16-20, Business Indonesia, 4th International Business and Office Equipment Exhibition, Jakarta; September 16-20 Computer Indonesia, 5th International Business

and Personal Computer Exhibition, Jakarta; October 21-25, Forestry Indonesia, 3rd International Forestry and Timber Processing Exhibition, Jakarta; October 21-25.

Woodworking and Timber Processing Exhibition, Jakarta; October 21-25, Agro-industry Indonesia, 3rd International Agricultural and Primary Food Processing Exhibition, Jakarta; November 25-29, Production Indonesia, 3rd International Production and Components Engineering, Factory Equipment, Power Transmission, Hydraulics and Pneumatics, Materials Handling and Factory Maintenance Exhibition, Jakarta; November 25-29, Chemical Indonesia, 2nd International Chemical and Process Engineering and Instrumentation Exhibition, Jakarta; November 25-29, Training Indonesia, 3rd International Industrial, Technical and Vocational Training Exhibition, Jakarta; November 25-29, Textile Indonesia, 3rd International Textiles Machinery, Garment-making and Finishing Equipment Exhibition, Jakarta.

**External trade**  
Exports: Main exports are oil and oil products (64.1 per cent of 1983 total, natural gas (12.2 per cent), forestry products (5.2 per cent), rubber (4 per cent), coffee (2 per cent), tin (1.5 per cent), fish and fish products (1.1 per cent), tea and copper. Main destinations are Japan (45.8 per cent of 1983 total), US (20.2 per cent), Singapore (14.8 per cent), Republic of Korea (1.6 per cent), Germany FR (1.2 per cent), Australia and UK.  
Imports: Main imports are machines (8.4 per cent of 1983 total), motors and motor vehicles (4.6 per cent), iron and steel bars (3.7 per cent), chemicals (3.8 per cent), rice (2.3 per cent), iron and steel pipes (2.1 per cent) and cotton yarn and fabrics (1.6 per cent). Main sources are Japan (23.2 per cent of 1983 total), Singapore (21.2 per cent), US (15.5 per cent), Saudi Arabia (5.5 per cent), Germany FR, France, Republic of Korea, Taiwan, Australia and UK.

**Interpreter services**  
Commercial Advisory Foundation in Indonesia (CAFI), Jalan Probolinggo 5, Jakarta (tel: 344485).  
Henry Suryopranoto SH Associates, Jalan Hayam Wuruk, Harco Building D34-35, Jakarta (tel: 656021).

**Banks: Central Bank**  
Bank Indonesia, 2 Jalan M H Thamrin, Jakarta (tel: 372408; telex: 44164).



The banking area of central Jakarta

# How to do business

MAKE FRIENDS, not waves.

Acceptance of such advice becomes obvious eventually to expatriate businessmen operating in Indonesia, but in many cases it takes too long. And in even more cases the expatriate accepts it but is unable to get his principals offshore to recognise its good sense.

Difficulties, frustration and anger follow and in extreme cases, disaster. It is better to have a good relationship than it is to write a good contract: the Indonesian is more than willing to remove obstacles in the way of concord and is governed by heart rather than head in business affairs.

His upbringing will encourage him to co-operate more as the problems grow. Recourse to the law is a lengthy and tortuous process. Rarely is it quickly effective, and contracts should be drawn that create opportunity rather than penalise non-observance.

No amount of time is too long when choosing a partner or sponsor. Hours of seemingly idle talks with the prospective person, with his organisation, with his friends, his acquaintances, his rivals and his relatives, are richly rewarded.

Understand his aspirations, check his achievements, mention him to officials, customers, clients, bankers and other associates and leave time for their opinions to mature.

It is worth deciding at an early stage whether you wish to be assisted and partnered by expertise, financial strength or political power. No more serious accident can befall a joint venture company than to lose its partners' lively assistance and enthusiasm, for without it you will lose your credence, your point of reference, your contacts and, in

some cases, your entire business.

Relations with government must always be smooth and harmonious. To fight it is certain failure, and if circumstances change, you must adapt.

It may be that some government policies are to your disadvantage. It is then that the offices of a good partner, and the exercise of restraint will enable you to survive and prosper.

**A guide for overseas visitors who hope to set up business links in Indonesia**

The state investment board, BKPM, is the first government department you will encounter. Through it you will be allowed to do business in Indonesia. It saves time if your approach to BKPM first and ask if what you want to do and how you want to do it is permitted. Never present a case that has not already met with their compliance.

Corruption is a word too often used about Indonesia. If you assume it to be obligatory you may be rudely shocked, and once offered where it is unacceptable you are ruined. If you are wrong in scale or approach the difficulties are equally embarrassing.

It is, however, more open than the West would allow. If it is considered necessary to reward an official beyond the measure of his obligations then get your Indonesian acquaintances to negotiate. It is a matter of face to accept such a favour from an expatriate.

The writer of this article is an expatriate businessman responsible for setting up and running a large industrial concern in Indonesia.

## WHERE TO GO FOR MORE INFORMATION

**WHERE TO GO FOR BUSINESS advice and information in Jakarta:**  
American Chamber of Commerce in Indonesia, 8F Citibank Building, 55 Jalan HM Thamrin, Jakarta (tel: 332602; telex: 44368).

ASEAN Secretariat, 6 Jalan Taman Pejambon, PO Box 2072, Jakarta.  
Business Advisory Services, Kuningan Plaza Building, Jalan Rasuna Said Kav C-11-14, Jakarta (tel: 5177295).

Central Bureau of Statistics, Jalan Dr Sutomo 18, Jakarta (tel: 372808).  
Co-ordinating Board for Capital Investment (Badan Koordinasi Penanaman Modal), Jalan Gatot Subroto 6, Jakarta (tel: 511948, 512098).

Department of Agriculture, Jalan Imam Bonjol 28, Jakarta

(tel: 331403).  
Department of Communications, Jalan Merdeka Barat 8, Jakarta (tel: 366705, 361308).

Department of Finance, Jalan Lapangan Banteng Timur 2-4, Jakarta (tel: 373309).

Department of Industry, Jalan Gatot Subroto Kav 52-53, Jakarta (tel: 5155090).  
Department of Mining and Energy, Jalan Merdeka Selatan 18, Jakarta (tel: 305440, 360232).

Department of Trade, Jalan Ridwan Rais 5, Jakarta (tel: 341961/2, 341403).  
Directorate General of Posts and Telecommunications, Jalan Medan Merdeka Selatan 12 (open 24 hours).

Indonesia-British Association (IBA), Lippo Life Building, 2nd Floor, Jalan HR Rasuna Said Kav B-10, Jakarta 12910.

Indonesian Chamber of Commerce and Industry (KADIN), Jalan Medan Merdeka Timur 11, Jakarta (tel: 37459, 367906).

Indonesian Exporters Association (GPET), Jalan Kramat Raya 4-6, Jakarta (tel: 346892, 350099).

Indonesian Importers Association (GENSI), PO Box 2744/DDR, Wisma Nusantara, Jalan Maja Pahit 1, Jakarta (tel: 360648, 367289).

Jakarta Chamber of Commerce and Industry Kadin Jaya Graha, Jalan I H Juanda 38, Jakarta (tel: 385609, 370943).

National Development Planning Board (BAPPENAS), Jalan Taman Surapati 2, Jakarta (tel: 336207).  
Pertamina, Jalan Merdeka Timur, Jakarta.

**Courier services**  
Birokta Semesta PT, Jalan H R Rasuna Said Setiabudi Building, Jakarta (tel: 517989).


City Link Indo PT, Jalan Thamrin Wisata Hotel, Jakarta (tel: 333432).

Inter Pacific Citra PT, Jalan Fanglima Polim Raya 15, Jakarta (tel: 735613).


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SECTION II - COMPANIES AND MARKETS
FINANCIAL TIMES

Monday March 10 1986



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INTERNATIONAL BONDS

Waiting for good news

BY MAGGIE URRY IN LONDON

"BUY ON the rumours, sell on the news," said a weary bond dealer on Friday evening. Interest rate cuts in West Germany, Japan and the US at the end of last week were just what the bond market had been waiting for...

and the flatness of the yield curve, has been the rash of long-dated deals. Swedish Export Credit (SEK) pushed out to 40 years with its \$200m deal. Borrowers want to lock into low rates for as long as possible...

In the D-Mark sector prices dipped towards the end of the week as this market took a breather too. The first fixed rate 30-year issue in this sector, from the World Bank, was still trading well at around 102% on Friday while the zero coupon issues from the Bundesbahn, via a vehicle company, all traded above issue price.

Ericsson in joint project with US group

By Kevin Done in Stockholm

ERICSSON, the Swedish telecommunications and electronics group, has signed a letter of intent with Digital Equipment Corporation (DEC) of the US, the world's second largest computer manufacturer...

The agreement will cover joint research and development and the probable creation of a joint development centre in Sweden. Ericsson will also be the prime manufacturer of systems developed under the joint venture.

At present Ericsson uses either its own or IBM mini-computers for its banking systems, but it is expected to transfer to digital equipment computers in the long term. The Ericsson agreement with Digital Equipment is the second co-operation pact it has made with US manufacturers in the information systems sector.

EURONOTES AND CREDITS

Flat yield curve slows placings

BY PETER MONTAGNON IN LONDON

A TESTING time has arrived for the fledgling Euronote and Eurocommercial paper market now that interest rates have fallen and the yield curve is flat. Just as this has driven bond market investors into longer and longer dated paper for the sake of extra yield and capital gain, so the opposite is also true...

were all quoted at around 7% per cent. Only out as far as a year did the curve begin to steepen slightly. One year rates were 7 1/2%. Since Euronotes and Eurocommercial paper sell at rates close to or even well below London interbank offered rates for Eurodollar deposits (Libor), that hardly spells profits for banks wanting to make a speculative money market play by funding three-month paper with short-term money.

stands somewhere between 20 and 50 per cent. A withdrawal of bank investors could thus cause the market to tighten, with discounts on Libor narrowing. Some bankers say they already detect this trend. A drawing last week by France's Credit National on a \$500m facility arranged in 1984 fetched an average yield of 15 basis points under Libor compared with 17 points three weeks before.

Investors such as corporate treasurers have still generally only dipped their toes into this market and the potential for growth is great. The worsening international debt scene could well encourage them to move further away from interbank deposits, especially if top quality alternatives surface in the Eurocommercial market.

Losses of \$303m for Wheeling

BY TERRY DODSWORTH IN NEW YORK

WHEELING-PITTSBURGE, the US steel company which applied for protection under Chapter 11 of the US bankruptcy code last year after a prolonged labour dispute, ran up losses of \$303m in 1985, including a \$141m extraordinary charge. In an optimistic statement accompanying the announcement, Wheeling said its new labour contract, signed after protracted negotiations last year, held out the prospect of substantial improvements in the current quarter.

Last year's deficit, the equivalent of \$60.87 a share, underlined a significant decline in the company's performance from 1984 when it registered a loss of \$59.4m or \$14.1 a share. The loss of business brought on by the labour dispute was reflected in a sharp drop in turnover to \$881m from \$1bn in the previous year. In the fourth quarter, losses also jumped, reaching \$94m, or \$18.80 a share, after taking in a non-recurring charge of \$56.5m. In the same period of the previous year, the deficit amounted to \$49.5m or \$10.56 a share.

Wheeling listed a variety of items which made up the charges against earnings, including stock write-downs and closure costs. The company said it also faces further claims for its obligations under its pension liabilities, which are now the subject of court discussions with the federal authorities. Wheeling has filed to have the pension obligations taken over by the Pension Benefit Guaranty Corporation (PBGC).

Heineken lifts earnings 16%

By Laura Raun in Amsterdam

HEINEKEN, the Dutch brewery, lifted its earnings by nearly 16 per cent to Fl 285.4m (\$106m) in 1985 from Fl 229m the previous year while sales were relatively flat. Turnover edged up only 4.4 per cent to Fl 6.4bn with a significant share of the gain attributed to the consolidation of a 38 per cent holding in El Agulla, the largest Spanish brewery. Heineken, which has built a heavy presence overseas, views Spain and other Mediterranean markets as promising growth markets but has noted that good profitability from these areas will take time. Trading profit expanded by 10.3 per cent to Fl 412m.

Table with columns: Primary Market, Secondary Market, Causal, Eurodollar, Total. Rows for US\$, DM\$, Sfr\$, Pwv.

The yield relationship between the Eurodollar and US bond markets is clearly saying something when AAA rated bonds offer such high relative returns. But even so, non-dollar based investors are loath to buy when they believe the currency has further to fall.

If the bonds are never repaid, PepsiCo is in effect paying dollar interest at well below market rates. Investors get no advantage from any rise in the dollar. Even so, Credit Suisse was rumoured to be contemplating an increase in the issue and may well have more borrowers who would like to do the same trick.

Secondary market prices gained 1/4 to 1/2 point over the week, with zero coupon bonds performing even better. The first zero coupon bond in the Euro-Danish kroner market was a success when it was launched on Friday. The deal, for Dansk Naturgas, traded around its issue price.

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March 3, 1986

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Pausing to measure the new ground rules

BY THE TIME the Federal Reserve Board moved to cut the US discount rate to 7 per cent last Friday, the US credit markets had already gone through their full repertoire of responses to the news.

US MONEY MARKET RATES (%) Table with columns: Instrument, Last Friday, 1 week ago, 4 wks ago, 12-month High, Low. Includes Fed Funds, Treasury bills, Commercial Paper.

US BOND PRICES AND YIELDS (%) Table with columns: Instrument, Last Friday, 1 week ago, 4 wks ago. Includes Treasury, Municipal, Corporate bonds.

FT/AIBD INTERNATIONAL BOND SERVICE

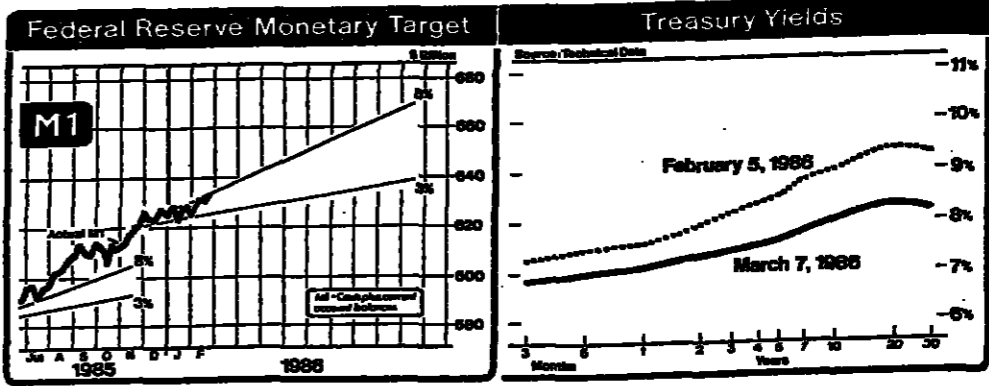
Large table of international bond data with columns: US Dollar, Issued, Price, Yield, Change. Lists various international government and corporate bonds.

unusual speed, announcing its decision before the start-up of trading in the morning, rather than after the close.

After the hectic re-awakening of last week, analysts are obliged with the credit markets may pause for a while to measure the new ground rules.

On the technical side, bonds are also overbought by the fact that there is a heavy supply of corporate issues in dealers' hands with a long queue of additional corporate issues.

At the short end, where the half-point reduction in the discount rate will help to restore a modest upward slope to the yield curve, the Federal funds rate, standing at 8 per cent only three weeks ago, is expected to slide down to trade at around 7.25 per cent.



supply yet further stimulation to growth in the shape of another reduction in the discount rate.

The statement accompanying Friday's announcement pointedly made no reference to recent US economic data.

in the US prime bank rate to 9 per cent on Friday, will help hard-stretched Third World countries with debt repayments tied to the American prime.

Other analysts believe that the recovery of these heavily indebted countries will demand yet further downward moves by the Fed—which may be pushed in a similar direction, they add, by renewed signs of weakness in the US economy.

to smooth the restructuring of Mexican and other deeply troubled LDC debt, shore up banks, thrifts and the Farm Credit system, counter the recession in agriculture and energy and the coming slide in commercial real estate, as well as to adjust to sharply reduced inflation.

Other analysts are more cautious, holding that the Fed will want to take stock of the economy under the new interest rate regime before acting further.

Terry Dodsworth

UK GILTS

All bets off before the Budget and Opec

AFTER TWO weeks in which the London gilt market had moved faster with less reason, Friday's announcements of cuts in the US and Japanese discount rates, following the German lead, were a muted response.

Was this the working of an efficient market, discounting the cuts, or merely shell shock? At all events, the FT Actuaries high coupon 25-year yield, spent another week on the right side of 10 per cent.

a high public sector borrowing requirement and more privatisation, the gilt market might prove unresponsive.

As for oil, it is not at all clear what Opec hopes to achieve by its conference, which begins in Geneva on March 16.

the interest rate differential has widened should underpin sterling until then. After that there is really nothing stopping the cut of half a per cent.

Whether before or after the Budget, a cut in UK short-term rates does not necessarily mean jam for the gilt market, which already gives the appearance of discounting most of the good news that is likely to come its way.

ism membership which would add icing to the cake. If Opec cuts oil production, and Mr Lawson presents a cautious Budget with a recipe that makes sense, he sees not just one half point cut in base rates but several.

"Last year the Chancellor held rates up much longer than people expected," Mr Harwood said. "This year he will not have to because he does not have the same inflationary worry given the background of world disinflation. It is not unduly optimistic to expect 11 per cent base rates by the end of the summer."

George Graham

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The Japan Development Bank advertisement featuring the bank's logo, US \$50,000,000 8 1/2 per cent Guaranteed Notes 1996, and a list of subscribers.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

CORPORATE FINANCE

SBC acts early to secure equity needs

SWISS BANK CORPORATION (SBC) last week announced the biggest rights issue in its history...

perencing a fast growth in off-balance-sheet business. "We have a feeling that the supervisors are going to get tougher..."

The restriction does not apply to the 1.6m participation certificates the board wants to issue...

No final decision has been taken about listings elsewhere but "conceptually" Dr Streichenberg sees a lot of sense...

New York would be an obvious choice. SBC employs 1,100 people in North America, where its operations are by far the largest among the Swiss banks...

William Dullforce

NEW INTERNATIONAL BOND ISSUES

Table with columns: Borrowers, Amount, Maturity, Av. life, Coupon, Price, Book Runner, Offer yield. Lists various international bond issues from U.S. Dollars to Yen.

Sealion Hotels' shares likely to be suspended

BY CHRIS SHERWELL IN SINGAPORE

SHARES in Sealion Hotels, the quoted Singapore company which owns the Hyatt Regency Hotel, are likely to be suspended...

This has hurt Sealion Hotels, which guaranteed the estimated \$800m (US\$250m) borrowing of Sealion Investments...

Sime Darby cuts payout as first-half profit dives

BY OUR FINANCIAL STAFF

SIME DARBY, the Malaysian diversified group whose interests range from engineering to plantations and property...

declined to 1.05bn ringgit from 1.21bn ringgit a year earlier. Falling palm oil prices, which Sime warned would leave it with a further decline in the second half of the financial year...

Power Corp advances

POWER CORPORATION OF Canada, controlled by Mr Paul Desmarais, the Montreal financier, reported 1985 net profits of C\$152m (US\$107m) or C\$2.56 a share against C\$128m or C\$2.50 a share against...

The higher earnings reflect gains by Power Financial Corporation, the financial services group; Consolidated Bathurst; C. B. Pak, the pulp and paper and packaging group; and gains on the sale of shares in Canadian Pacific and Power Financial.

Aluminium capacity boost

MR RANDOLPH, president of Reynolds International, said his company was planning to invest \$13.15m in Alcaesa, a joint venture aluminium company located in Venezuela's Guayana heavy industrial zone...

Reynolds said the Venezuelan government are also discussing possible stock swaps in Reynolds companies in Europe.

Special Subscription Delivery Service of the Financial Times in MILAN. Includes contact information and a small image of a building.

US DOLLAR THE WORLD VALUE. A small graphic advertisement.

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CPI U.S. \$ 100,000,000 Corporate Property Investors. 10 5/8% Notes due 1992. Lists various banks and financial institutions.

RECENT ISSUES

UK COMPANY NEWS

Exco denies rumour of American Express link

BY CHARLES BATCHELOR

Exco International, the money broking group which on Wednesday called off merger talks with Morgan Grenfell, denied yesterday that American Express, the US financial services conglomerate was a possible alternative partner.

BOARD MEETINGS

Table with columns: Today, Tomorrow, Future Dates. Lists various companies and their board meeting dates.

Alliance Trust earnings improvement

Earnings for the year ended January 31 1986 at Alliance Trust are in line with forecast, increasing from 17.80p to 20.91p.

Noble & Lund

Record profits of £278,396 pre-tax were achieved by Noble and Lund in 1985, compared with £25,147 previously.

Hawker Canada's net income down by 31%

Hawker Siddeley Canada, which is 59 per cent owned by the UK combine, reports a 31 per cent decline in net attributable income for 1985.

COMPANY NEWS IN BRIEF

FLEMING MERCANTILE Investment Trust reported net revenue to January 31 1986 up 594,000 at 55.73m.

CLIFFORD'S DAIRIES

is acquiring Morton Foods, which supplies coatings and ingredient mixes to the frozen food and bakery trade.

AMERICAN Electronic Components

investment holding company with interests in the manufacture of switch and relay mechanisms, is paying an interim dividend of 0.85p.

Gelfer in agreed bid for David Dixon

A & J Gelfer, the Glasgow-based textile manufacturer, is to make an agreed bid worth £7.1m for David Dixon Group, the Yorkshire clothing company.

Barclays Merchant shows 57% growth

All divisions of Barclays Merchant Bank contributed positively to record results achieved in 1985. Pre-tax profit was 21.5m, a growth of 57 per cent over the 13.6m of the previous year.

F.T. Share Information

The following securities have been added to the Share Information Service by the F.T. Staff.

Hambros planning to enfranchise shares

HAMBROS, the merchant bank, has announced details of a proposed share exchange which will enfranchise its limited voting shares and pave the way for Hambro Trust to sell its shareholding.

L & G and Standard Life raise terminal bonuses

BOTH Standard Life Assurance Company, Scotland's largest life company, and Legal & General Group, Britain's second largest life company, have unchanged reversionary bonuses for 1985.

SHARE STAKES

Changes in company share stakes announced over the past week include: Annitae Stakis sold 1m ordinary at 70p.

FINANCIAL DIARY FOR THE WEEK

Table listing financial events for the week, including company meetings, dividend payments, and interest payments.

EQUITIES

Table of equity prices for various stocks, including Anglo-Continental, B&W, and others.

FIXED INTEREST STOCKS

Table of fixed interest stock prices, including Allied-Low, Anglo-Continental, and others.

RIGHTS OFFERS

Table of rights offers for various companies, including Anglo-Continental, B&W, and others.

PENDING DIVIDENDS

Table of pending dividends for various companies, including Anglo-Continental, B&W, and others.

Mitchell Cott's financial report for six months ended 31st December 1985. Includes turnover, profit before taxation, profit after taxation, earnings per ordinary share, and dividend per ordinary share.

Wells Fargo & Company U.S. \$200,000,000 Floating Rate Subordinated Notes due 2000. Includes details about the notes and agent Morgan Guaranty Trust.

Series 036 U.S. \$42,000,000 Short-term Guaranteed Notes issued in Series under a U.S. \$280,000,000 Note Purchase Facility by Mount Isa Mines (Coal Finance) Limited.

Granville & Co. Limited. Member of the National Association of Security Dealers and Investment Managers. 8 Lovell Lane London EC3R 8BP. Telephone 01-621 1212.

FINANCIAL TIMES STOCK INDICES table showing Government Secs, Fixed Interest, Ordinary, and Gold Minos indices from March 1985 to March 1986.

LADBROKE INDEX 13021.306 (+12) Based on FT Index Ref: 91-827 4411. Table with columns: Ladbroke Index, High, Low, Since Completion, and Low.

Over-the-Counter Market table showing Capitalism, Company, Price, Change, Gross Yield, and Fully Paid Up shares for various companies.

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There are 500 words in this advertisement.  
 Each one is worth reading very, very carefully. Because they develop an argument which, when followed through to its logical conclusion, could lead the way to the formation of a new company with an annual turnover well over £6,000,000,000. (Half of which comes from related businesses.)  
 The two companies are United Biscuits and Imperial.  
 United Biscuits are front-runners in the food market and expanding fast in leisure.  
 Imperial are leaders in the food,

of America.  
 One of those brands is Pizzaland whose restaurant opening programme will be accelerated.  
 On the subject of overseas markets, United's growing presence in North America, Hong Kong, Japan and the Third World will open new doors for Imperial. Much as their world markets will be introduced to us.  
**Two frozen peas in a pod.**  
 One of the fastest growing world markets is Frozen Foods.  
 The home market as much as the catering market.

# Consider these 500 words carefully. Each one could be worth £12 million.

leisure and tobacco markets. (See? Common ground already.)

By joining forces, our combined turnover, based on 1985 sales, will be well above £6 billion.

### One and one is more than two.

From this point on, the words grow progressively more valuable.

If our combination stood only for a pooling of sales, our argument would be strong.

What makes it incontrovertible and so potentially fruitful, is how those common resources could be exploited.

Imperial presently control over 6,000 pubs, restaurants and shops.

Ready markets for United Biscuits' crisps, snacks, confectionery, pizzas and burgers.

Simply by coming together, we could substantially increase our penetration into these outlets.

### Two vans can't live as cheaply as one.

All those pubs and restaurants, as well as a nationwide network of tobacconists, need regular replenishment.

By bringing together our distribution and wholesale operations, we anticipate an impressive reduction in overheads.

Imperial's strong cash flow will provide a rich source of funds to invest back into our brands both at home and in the United States

Imperial, with Ross and Youngs, are strong in supermarkets. We're both growing fast in the catering trade.

Together, we can consolidate our successes and create a giant bigger than the jolly green one.

### Even more resourceful.

As you read this, there's a team of people at United Biscuits working hard on new product development. Our record testifies to their successes in the past.

Round the corner, at Imperial, another team is busy on their new product development.

It's easy to imagine how the pooling of those resources could benefit both companies.

### Ask the other half.

It's not just United who want Imperial.

It's Imperial who want United. Both of us know just how well suited we are to each other.

Just how powerful a force we can be together.

However many words others may give you, in the long term they just can't add up to the same value.

And in the long run, it's not words that count.

But the value behind them.

## United Imperial

THE LONGER YOU LOOK AT IT, THE MORE IT MAKES SENSE.





Trust Monk to take constructive ideas and build on them. Monk logo and contact information.

CONSTRUCTION CONTRACTS

Bolton market development

Wimpey Construction Management has been awarded a management contract valued at £2.2m by Grosvenor Developments for the development of The Market Place, Bolton.

ping mall and built over a basement service area. There will also be a three-level, 720-space car park, and pedestrian walkways will link the scheme to the existing shopping area in Deansgate and Corporation Street.

Market Hall, a Grade II listed building, is to be refurbished as an integral part of the development. The refurbished market hall will provide some 200 stalls and shops with an area of about 6,500 sq metres.

Water pipe replacement

Contracts worth £3.1m have been awarded to SHANKS & WELSHAN (CONTRACTORS) of Glasgow for the replacement of four kilometres of concrete pipe-line for the Anglian Water Authority.

Gas and water mains

EDWARD THOMPSON has secured the following contracts totalling some £3.7m for civil engineering work: British Gas East Midlands has placed an order for the laying of gas mains and gas services with other ancillary works in two zones centred on the cities of Derby and Nottingham.

the construction of a cross-country water main of 400 mm in diameter and 6 km in length, located south of Daventry. Further contracts for water main-laying and services have been placed by the Anglian Water Authority for the year ending March 1987.

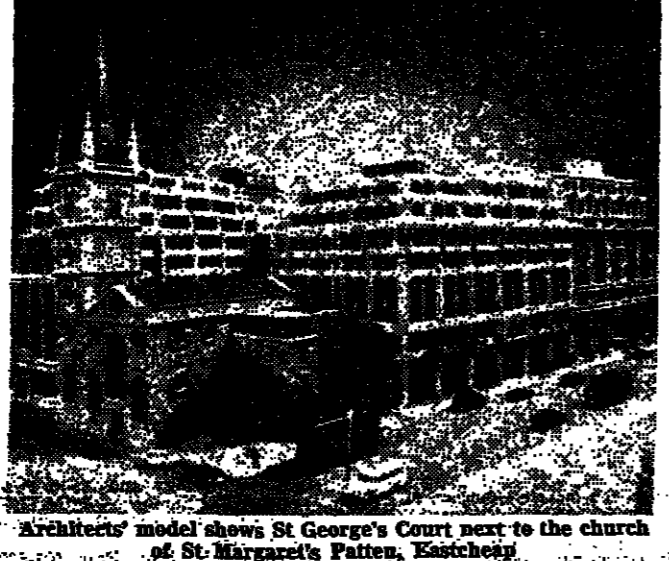
Civic centre in Taunton

JOHN LAING CONSTRUCTION has started work on a £3.5m civic centre for the Taunton Deane Borough Council. This design and build contract involves construction of a civic centre. The building will be a two- and three-storey structure of traditional construction with faced brick-work and pitched and tiled roofs.

Eastcheap office block

An £8.9m contract for a prestige City office block, to be known as St George's Court, in Eastcheap, has been won by John Mowlem and Company. The building will have about 30,000 sq ft of lettable floor area.

will be of reinforced concrete frame on pad foundations. The front elevation is to be clad in Brazilian granite, the rear elevations in reconstituted stone. There will be a central courtyard with a fountain. Windows will have bronze-coloured frames with tinted glass and there will be window-cleaning cradles operating from two levels.



Projects worth over £2m have been awarded to ERIGOS AMASCO, a Tarmac company. The largest, at £850,000, is for re-roofing the Royal Commonwealth Pool for Edinburgh District Council. Work starts this month but will be halted for the Commonwealth Games this summer.

THE FINANCIAL TIMES is proposing to publish a Survey on GHANA on Monday May 19 1986. Advertising copy date for this Survey is Monday April 21 1986.

THE BODY SHOP INTERNATIONAL PLC (Incorporated in England under the Companies Act 1948 to 1979 No. 1294717) INTRODUCTION TO THE OFFICIAL LIST SHARE CAPITAL

F.T. CROSSWORD PUZZLE No. 5968. A crossword puzzle grid with numbers 1-31.

USS 25,000,000 THE FORMOSA FUND (a contractual securities investment trust fund established under and governed by the laws of the Republic of China in Taiwan) managed by KWANG HUA SECURITIES INVESTMENT & TRUST CO., LTD.

ACROSS 1 Solicits places for petrol with 4 (6) 2 See 1 ac., 1d., 13, 14, 18, 22, 27, 28, 29, and 31 (past?) (8) 3 Motive connected with a Society performing... (6) 4 acts with dirt being thrown to harass (8) 5 Fumigated religiously and angrily (8) 6 Handle pointer with 4 (6) 7 Person silly to continue (4) 8 PCs lied unexpectedly although unguited (7) 9 Imagined malice could be a this with 4 (7) 10 The part of fakir on stage is sterna (4) 11 shows it taking girl round North America (5) 12 Eat teeth fashed when he was in office? (3, 5) 13 Alien American patroller in woods with 4 (8) 14 Fugitive's women with 4 (6) 15 Did sarge, turning nasty, deprive of rank? (8) 16 Follow secretly to presage with 4 (6) DOWN 1 Bearing front part of coach with 4 (8) 2 Action when going to sea—

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

Table listing various unit trusts and their performance metrics. Columns include Trust Name, Price, and other financial indicators. The table is organized into sections like 'Allied Shares Unit Trusts', 'British Overseas Investment Unit Trusts', etc.

AUTHORISED UNIT TRUSTS & INSURANCES

Table listing various unit trusts and insurance products, including names like 'Oppenheimer Fund Mgmt Ltd', 'Sun Alliance Fund Management Ltd', and 'Standard Life Trust Mgmt Ltd', along with their respective details and prices.

Table listing various unit trusts and insurance products, including names like 'Allied Bank Assurance Plc', 'Continental Life Insurance Plc', and 'General Portfolio Life Ins. Plc', along with their respective details and prices.

Table listing various unit trusts and insurance products, including names like 'Kingswood Home', 'Kingswood Health', and 'Kingswood Property', along with their respective details and prices.

Table listing various unit trusts and insurance products, including names like 'Manufacturers Life Assurance Co (UK) - Contd', 'Property Growth Assur Co Ltd - Contd', and 'Standard Life Trust Mgmt Ltd', along with their respective details and prices.

INSURANCES

Table listing insurance products, including names like 'AA Friendly Society', 'Abey Life Assurance Co Ltd', and 'Alliance Life Assurance Co Ltd', along with their respective details and prices.

Table listing insurance products, including names like 'Alliance Life Assurance Co Ltd', 'Alliance Life Assurance Co Ltd', and 'Alliance Life Assurance Co Ltd', along with their respective details and prices.

Table listing insurance products, including names like 'Alliance Life Assurance Co Ltd', 'Alliance Life Assurance Co Ltd', and 'Alliance Life Assurance Co Ltd', along with their respective details and prices.

INSURANCE, OVERSEAS & MONEY FUNDS

Table of insurance and overseas funds, including sections for Swiss Life, TSB Life, and various international investment funds.

Table of insurance and overseas funds, including sections for The English Trust Group, BNP Paribas, and various international investment funds.

Table of insurance and overseas funds, including sections for Management International Ltd, Swiss Life, and various international investment funds.

Table of money market funds and bank accounts, including sections for Money Market Trust Funds, Money Market Bank Accounts, and Traditional Options.

OFFSHORE AND OVERSEAS

TRADITIONAL OPTIONS

Table of traditional options, including 3-month call rates and various market indicators.

NOTES: Prices are in pence unless otherwise indicated and those quoted are for the London market.

BRITISH FUNDS

Table of British Funds with columns for Name, Price, Last, and Yield. Includes sub-sections for 'Shorts' (Lives up to Five Years) and 'Five to Fifteen Years'.

Table of British Funds (continued) with columns for Name, Price, Last, and Yield. Includes sub-sections for 'Five to Fifteen Years' and 'Unrated'.

Table of British Funds (continued) with columns for Name, Price, Last, and Yield. Includes sub-sections for 'Index-Linked' and 'Unrated'.

Table of British Funds (continued) with columns for Name, Price, Last, and Yield. Includes sub-sections for 'Index-Linked' and 'Unrated'.

INT. BANK AND OSEAS GOVT. STERLING ISSUES

Table of International Bank and Overseas Government Sterling Issues with columns for Name, Price, Last, and Yield.

CORPORATION LOANS

Table of Corporation Loans with columns for Name, Price, Last, and Yield.

COMMONWEALTH & AFRICAN LOANS

Table of Commonwealth and African Loans with columns for Name, Price, Last, and Yield.

LOANS

Table of Loans with columns for Name, Price, Last, and Yield.

Public Board and Ind.

Table of Public Board and Industrial issues with columns for Name, Price, Last, and Yield.

FOREIGN BONDS & RAILS

Table of Foreign Bonds and Rails with columns for Name, Price, Last, and Yield.

AMERICANS

Table of American stocks with columns for Name, Price, Last, and Yield.

AMERICANS - Cont.

Table of American stocks (continued) with columns for Name, Price, Last, and Yield.

CANADIANS

Table of Canadian stocks with columns for Name, Price, Last, and Yield.

BANKS, HP & LEASING

Table of Banks, Hire Purchase, and Leasing companies with columns for Name, Price, Last, and Yield.

DRAPERY AND STORES

Table of Drapery and Stores companies with columns for Name, Price, Last, and Yield.

BEERS, WINES & SPIRITS

Table of Beers, Wines, and Spirits companies with columns for Name, Price, Last, and Yield.

BUILDING, TIMBER, ROADS

Table of Building, Timber, and Roads companies with columns for Name, Price, Last, and Yield.

LONDON SHARE SERVICE

BUILDING, TIMBER, ROADS - Cont.

Table of Building, Timber, and Roads companies (continued) with columns for Name, Price, Last, and Yield.

DRAPERY & STORES - Cont.

Table of Drapery and Stores companies (continued) with columns for Name, Price, Last, and Yield.

CHEMICALS, PLASTICS

Table of Chemicals and Plastics companies with columns for Name, Price, Last, and Yield.

FOOD, GROCERIES, ETC.

Table of Food, Groceries, and other companies with columns for Name, Price, Last, and Yield.

HOTELS AND CATERERS

Table of Hotels and Caterers companies with columns for Name, Price, Last, and Yield.

ENGINEERING

Table of Engineering companies with columns for Name, Price, Last, and Yield.

INDUSTRIALS

Table of Industrial companies with columns for Name, Price, Last, and Yield.

ENGINEERING - Continued

Table of Engineering companies (continued) with columns for Name, Price, Last, and Yield.

INDUSTRIALS - Continued

Table of Industrial companies (continued) with columns for Name, Price, Last, and Yield.

INDUSTRIALS (Miscellaneous)

Table of Miscellaneous Industrial companies with columns for Name, Price, Last, and Yield.

Table of Miscellaneous Industrial companies (continued) with columns for Name, Price, Last, and Yield.

Table of Miscellaneous Industrial companies (continued) with columns for Name, Price, Last, and Yield.

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Table of Miscellaneous Industrial companies (continued) with columns for Name, Price, Last, and Yield.

Table of Miscellaneous Industrial companies (continued) with columns for Name, Price, Last, and Yield.

INDUSTRIALS - Continued

Table of industrial stock prices and changes. Columns include company name, price, last, net, div, and % change.

LEISURE - Continued

Table of leisure stock prices and changes. Columns include company name, price, last, net, div, and % change.

PROPERTY - Continued

Table of property stock prices and changes. Columns include company name, price, last, net, div, and % change.

INVESTMENT TRUSTS - Cont.

Table of investment trusts stock prices and changes. Columns include company name, price, last, net, div, and % change.

FINANCE, LAND - Cont.

Table of finance and land stock prices and changes. Columns include company name, price, last, net, div, and % change.

MINES - Continued

Table of mining stock prices and changes. Columns include company name, price, last, net, div, and % change.

MOTORS, AIRCRAFT TRADES

Table of motors and aircraft trades stock prices and changes. Columns include company name, price, last, net, div, and % change.

Commercial Vehicles

Table of commercial vehicles stock prices and changes. Columns include company name, price, last, net, div, and % change.

Components

Table of components stock prices and changes. Columns include company name, price, last, net, div, and % change.

Garages and Distributors

Table of garages and distributors stock prices and changes. Columns include company name, price, last, net, div, and % change.

SHIPPING

Table of shipping stock prices and changes. Columns include company name, price, last, net, div, and % change.

NEWSPAPERS, PUBLISHERS

Table of newspapers and publishers stock prices and changes. Columns include company name, price, last, net, div, and % change.

PAPER, PRINTING, ADVERTISING

Table of paper, printing, and advertising stock prices and changes. Columns include company name, price, last, net, div, and % change.

TEXTILES

Table of textiles stock prices and changes. Columns include company name, price, last, net, div, and % change.

SHOES AND LEATHER

Table of shoes and leather stock prices and changes. Columns include company name, price, last, net, div, and % change.

SOUTH AFRICANS

Table of South African stock prices and changes. Columns include company name, price, last, net, div, and % change.

TOBACCO

Table of tobacco stock prices and changes. Columns include company name, price, last, net, div, and % change.

TRUSTS, FINANCE, LAND

Table of trusts, finance, and land stock prices and changes. Columns include company name, price, last, net, div, and % change.

INSURANCE

Table of insurance stock prices and changes. Columns include company name, price, last, net, div, and % change.

PROPERTY

Table of property stock prices and changes. Columns include company name, price, last, net, div, and % change.

LEISURE

Table of leisure stock prices and changes. Columns include company name, price, last, net, div, and % change.

FINANCE, LAND - Cont.

Table of finance and land stock prices and changes. Columns include company name, price, last, net, div, and % change.

MINES - Continued

Table of mining stock prices and changes. Columns include company name, price, last, net, div, and % change.

PLANTATIONS

Table of plantations stock prices and changes. Columns include company name, price, last, net, div, and % change.

TEAS

Table of tea stock prices and changes. Columns include company name, price, last, net, div, and % change.

MINES - Continued

Table of mining stock prices and changes. Columns include company name, price, last, net, div, and % change.

Central Rand

Table of central rand mining stock prices and changes. Columns include company name, price, last, net, div, and % change.

Eastern Rand

Table of eastern rand mining stock prices and changes. Columns include company name, price, last, net, div, and % change.

Far West Rand

Table of far west rand mining stock prices and changes. Columns include company name, price, last, net, div, and % change.

REGIONAL & IRISH STOCKS

Table of regional and Irish stocks. Columns include company name, price, last, net, div, and % change.

Notes

Notes section providing additional information and commentary on the market.

RECENT ISSUES AND RIGHTS

Table of recent issues and rights. Columns include company name, price, last, net, div, and % change.

Far West Rand

Table of far west rand mining stock prices and changes. Columns include company name, price, last, net, div, and % change.

Regional & Irish Stocks

Table of regional and Irish stocks. Columns include company name, price, last, net, div, and % change.

Recent Issues and Rights

Table of recent issues and rights. Columns include company name, price, last, net, div, and % change.

Notes

Notes section providing additional information and commentary on the market.



WORLD STOCK MARKETS

Table of world stock markets including Australia, Germany, Japan, Canada, and others. Columns include country, date, price, and change.

Table of over-the-counter Nasdaq national market closing prices for March 7, listing various stocks and their prices.

Table of NYSE Composite Closing Prices for March 7, showing various market indices and their values.

Table of New York Indices for 1985-86, comparing different market indices over time.

Table of Australia and New Zealand stock market data, including indices and individual stock prices.

Table of Belgium and Denmark stock market data, including indices and individual stock prices.

Table of France and Germany stock market data, including indices and individual stock prices.

Table of Hong Kong and Italy stock market data, including indices and individual stock prices.

Table of Japan and Singapore stock market data, including indices and individual stock prices.

Table of South Africa and Switzerland stock market data, including indices and individual stock prices.

Table of Sweden and Taiwan stock market data, including indices and individual stock prices.

Table of the United Kingdom and the Netherlands stock market data, including indices and individual stock prices.

Table of Canada and the United States stock market data, including indices and individual stock prices.

Special Subscription HAND DELIVERY SERVICE advertisement with a map of Europe.

Financial Times advertisement for the Netherlands edition, including contact information and a map of the Netherlands.

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Closing prices, March 7

Main table of stock prices with columns for stock name, price, and change. Includes sub-sections for '12 Month High Low' and '12 Month Low High'.



NYSE COMPOSITE CLOSING PRICES

Table of NYSE Composite Closing Prices. Columns include Stock, High, Low, Last, Change, and Volume. Lists various stocks such as IBM, AT&T, and General Electric.

AMEX COMPOSITE CLOSING PRICES

Table of AMEX Composite Closing Prices. Columns include Stock, High, Low, Last, Change, and Volume. Lists various stocks such as American Express and American International Group.

OVER-THE-COUNTER Nasdaq national market, closing prices March 7

Table of Over-the-Counter (Nasdaq) Closing Prices. Columns include Stock, High, Low, Last, Change, and Volume. Lists various stocks such as American Express, American International Group, and American Telephone and Telegraph.

Continued on Page 31

Notes and footnotes regarding the data, including information on sales figures, dividends, and stock splits.

Continued on Page 31

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Fed reacts to economic sloth

By COLIN MILLHAM

Friday's cut in the US Federal Reserve's discount rate by 1/2 per cent to 7 per cent came as a surprise to the foreign exchange market, in spite of similar reductions by the West German Bundesbank and the Bank of Japan. The US central bank, guided by its conservative chairman Mr Paul Volcker, was expected to wait until there was evidence the dollar had stabilised before following Germany and Japan.

£ IN NEW YORK

Table with columns: Close, Mar. 7, Prev. close. Rows for 3 months, 6 months, 9 months, 12 months.

to see a decline, to correct the very large US trade deficit, but also because of disappointing economic expansion, and expectations of lower interest rates. Another decline in the dollar's value may now be accepted, and be welcomed as long as the market remains orderly, but the foreign exchange rate nervous because the point could be near when the central banks, including the Federal Reserve, say enough is enough.

Germany and Japan in particular may not be happy to see the dollar fall much further, but financial markets are also nervous, because of suggestions that the fall in world interest rates will continue. During 1977-78 the dollar fell from Y220 to a record trading low of Y175.50, while the Bank of Japan's discount rate went in stages from 6.5 per cent to a record 5.5 per cent.

This indicates possible room for another round of interest rate cuts, but in the meantime the spectre of a turnaround in the oil market Japan and Germany are two major beneficiaries from lower oil prices, and this has enabled them to lead the way to lower rates, but Opec ministers meet next weekend, with the view to making the cartel a force to be reckoned with once again.

CURRENCY MOVEMENTS

Table showing currency movements for various countries like Sterling, US Dollar, Canadian dollar, etc.

CURRENCY RATES

Table showing currency rates for Sterling, Euro, Swiss franc, etc.

POUND SPOT-FORWARD AGAINST POUND

Table showing pound spot and forward rates against the pound for various countries.

DOLLAR SPOT-FORWARD AGAINST DOLLAR

Table showing dollar spot and forward rates against the dollar for various countries.

FORWARD RATES AGAINST STERLING

Table showing forward rates against sterling for Dollar, DM, French Franc, etc.

EMS EUROPEAN CURRENCY UNIT RATES

Table showing EMS European currency unit rates for various countries.

MONEY MARKETS

London cool on rate move

Interest rates fell on the London money market last week, but there was no indication the Bank of England was considering endorsing an early cut in clearing bank base rates. The pound's vulnerability to oil price movements pointed to continued caution on interest rates in spite of rate cuts in several other major world centres.

NEW YORK

Treasury Bills & Bonds

Table showing Treasury bills and bonds rates for New York.

BANK OF ENGLAND TREASURY BILL TENDER

Table showing Bank of England Treasury bill tender details.

WEEKLY CHANGE IN WORLD INTEREST RATES

Table showing weekly change in world interest rates for various locations.

FT LONDON INTERBANK FIXING

Table showing FT London interbank fixing rates.

MONEY RATES

Table showing money rates for various locations like Frankfurt, Zurich, etc.

LONDON MONEY RATES

Table showing London money rates for various terms.

CURRENCY FUTURES

Table showing currency futures for Pound-Sterling.

LIFFE-STERLING £25,000 \$ per £

Table showing Liffe Sterling futures prices.

LIFFE-DEUTSCHE MARKS

Table showing Liffe Deutsche Marks futures prices.

CHICAGO

Table showing Chicago futures prices for US Treasury Bonds.

US TREASURY BILLS (MM)

Table showing US Treasury Bills (MM) prices.

CHIT. DEPOSIT (MM)

Table showing Chit. Deposit (MM) prices.

THREE-MONTH EURODOLLAR (MM)

Table showing Three-Month Eurodollar (MM) prices.

IMM-STERLING \$ per £

Table showing IMM Sterling prices.

IMM-STERLING \$ per £

Table showing IMM Sterling prices.

EXCHANGE CROSS RATES

Table showing exchange cross rates for various currencies.

Advertisement for LIFE THE LONDON INTERNATIONAL FINANCIAL FUTURES EXCHANGE, including options on U.S. Treasury Bond Futures Contracts.

Advertisement for WestLB Eurobonds, DM Bonds, and Schuldenscheine.

Advertisement for CAISSE COOPERATIVE ECONOMIQUE US\$100,000,000 Annual Option Notes 1993.

Large advertisement for Export Development Corporation, Société pour l'expansion des exportations, featuring 8 1/2% Notes Due April 1, 1992.

Advertisement for Ireland £100,000,000 Floating Rate Notes 1996.

Advertisement for DAIWA BANK, a fully integrated banking service.

Handwritten note in Arabic script: مكتبة ابن بطوطة